

INHERITING THE LEGACY IN INDONESIA



Executive Summary

After the recovery from the covid-19 pandemic, Indonesia is ready to usher into a new era of growth and development. Led by the new president elect, Prabowo, continuing the legacy of the previous president, and the inauguration of Indonesia's new capital, Nusantara, Indonesia is poised to become a global leader. With improving global relations and FTA agreements, Indonesia has set itself a platform for growth.

In this ebook edition focusing on the succession of the new president elect and capital, we will be walking through an in-depth analysis by top experts and researchers in the field, to help you understand the current situation in Indonesia while presenting a picture of the investment opportunities in 2024 and the following years.

The ebook is divided into 4 main parts. Part 1 opens with the current situation of Indonesia in both the political status and economics assessment. Part 2 and Part 3 continues with the impact of the change in Presidents and the inauguration of the new capital, Nussantra. At the same time, Part 3 provides a detailed analysis on the opportunities, trends and challenges of Indonesia's economy in the upcoming years. Last but not least, step-by-step guidelines and practices to invest in Indonesia will be presented to wrap up the ebook.

A Snapshot of Indonesia

General information



Population: 279,727,116 (as of Thursday, June 20, 2024)

Ethnic groups: Javanese, Sundanese, Malay, Batak, Madurese, Betawi, others

Official language(s): Indonesian

Currency: Indonesian rupiah (IDR)

Economic situations *



GDP (nominal): \$1.47 trillion (2024 est.)



GDP per capita: \$5,271 (2024 est.)



Economic Growth: 5.05% (2023)

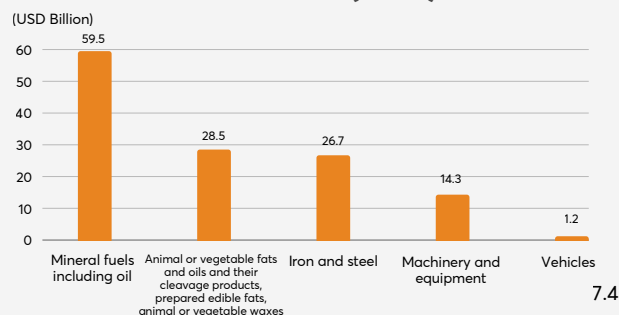


Inflation: 2.84% (in May, 2024)

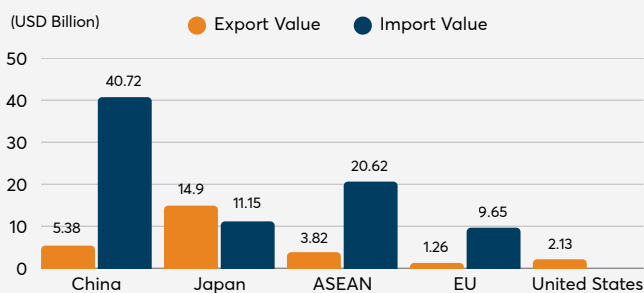
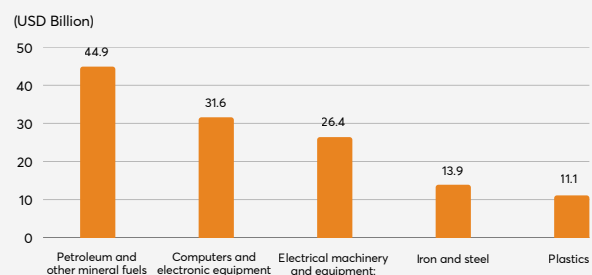


Import - Export

Top 5 Export Commodities of Indonesia (2023)



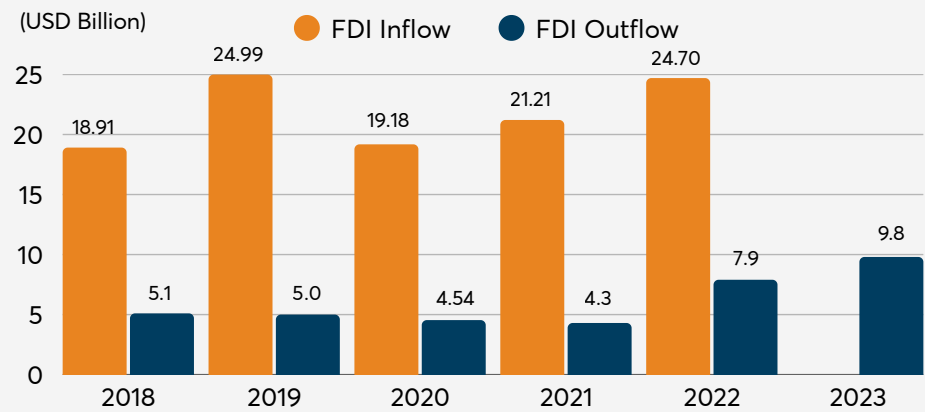
Top 5 Import Commodities of Indonesia (2023)



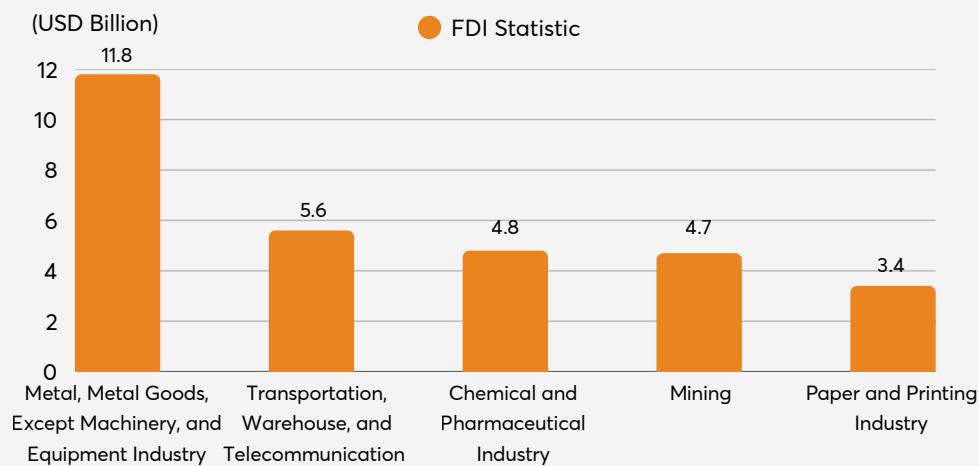
Top 5 Countries Investing in Indonesia (2023)

* <https://www.imf.org/en/Countries/IDN>

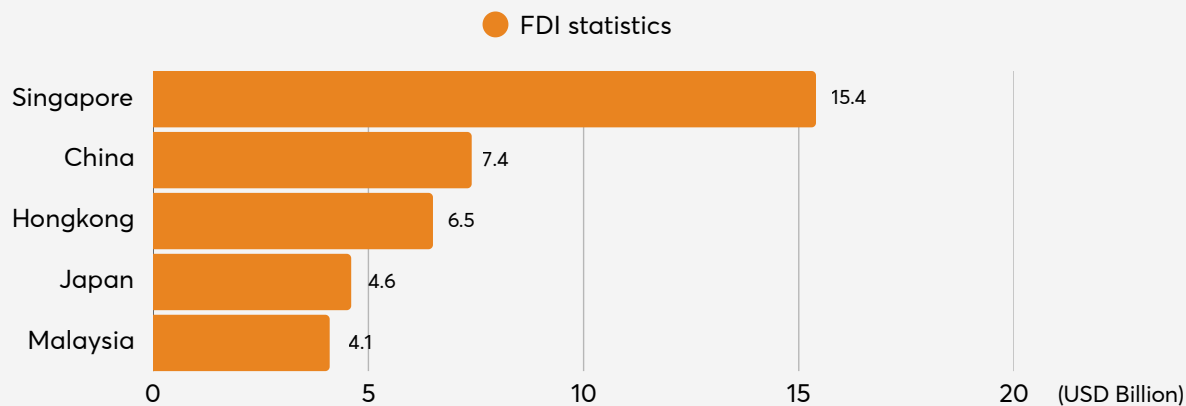
FDI situation



FDI Statistics of Indonesia over the past years (2018-2023)



Top 5 Sectors to Receive the Largest Amount of FDI in Indonesia (2023)



Top 5 Countries Investing in Indonesia (2023)

Current Situation

In early 2024, Indonesia had the general elections after president Joko Widodo was unable to run for the position after two terms. Additionally, Indonesia's new capital, Nusantara is set to be inaugurated on 15th August. Both of these new changes inherit the legacy from their previous holders, however, bring with them uncertainties.

The current political situation

The 2024 elections in Indonesia resulted in a significant shift in the political landscape. Prabowo Subianto, the leader of the Great Indonesia Movement Party (Gerindra), was confirmed as the new President of Indonesia. He secured a decisive victory over his rivals, marking a pivotal change in leadership after Joko Widodo's two terms. Prabowo's win represents a strong mandate from the electorate, with his campaign focusing on economic growth, national security, and infrastructure development. His running mate, Gibran Rakabuming Raka, is the son of outgoing President Joko Widodo, which helped consolidate support from Jokowi's base.

Despite losing the presidential election, the Indonesian Democratic Party of Struggle (PDI-P) performed well in the legislative elections, securing a significant share of seats in the national legislature. This strong legislative presence provides a solid foundation for effective governance and a balanced political environment

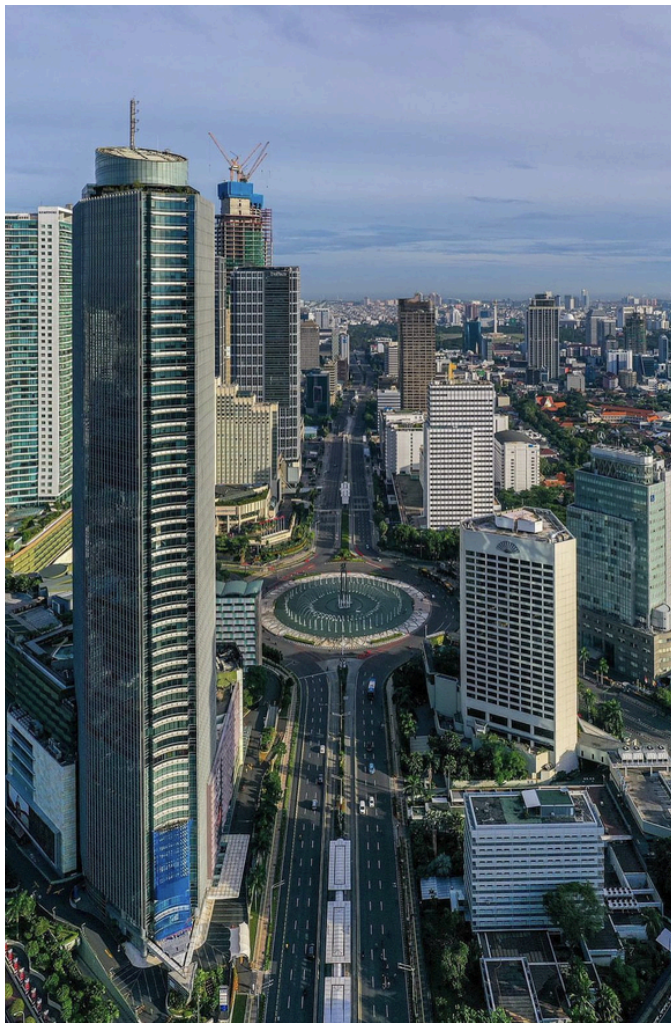


However, there are concerns about Prabowo's commitment to democratic principles given his past affiliations and the support from figures with authoritarian tendencies. Observers worry about the potential erosion of democratic norms under his leadership, emphasizing the need for a vigilant and effective opposition to safeguard democratic practices.

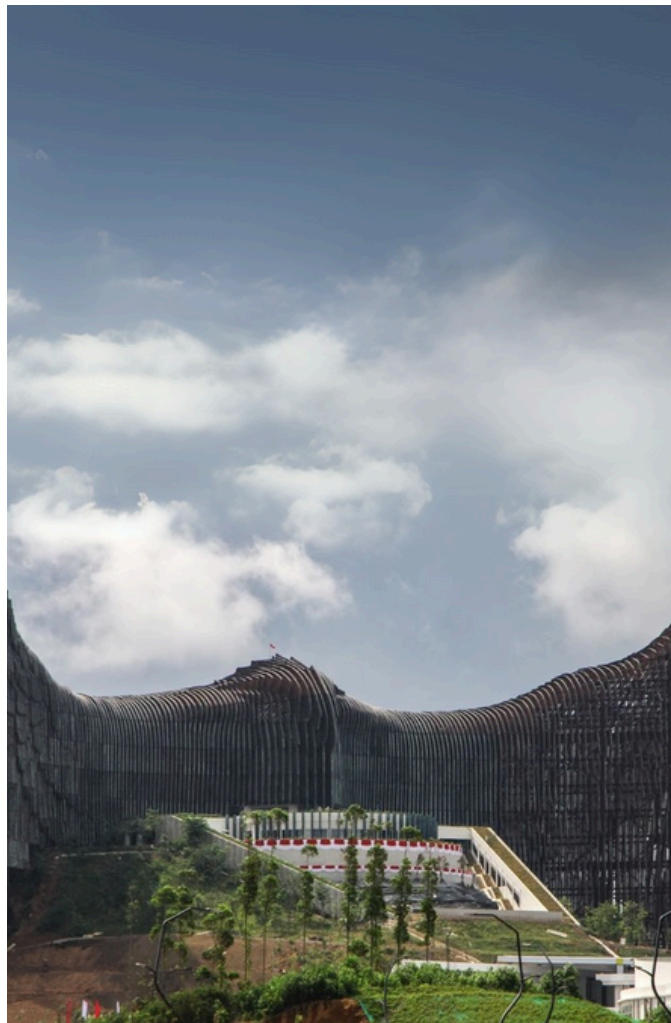
Additionally, allegations of electoral fraud and manipulation have surfaced, with some claims that efforts were made to influence the election results in favor of Prabowo and his running mate.

Indonesia's current economic situation

Indonesia, Southeast Asia's largest economy, has shown robust economic performance in recent years, rebounding from the COVID-19 pandemic with significant growth. In 2023, the economy grew by 5.05%, driven by strong domestic consumption, investment, and a recovery in export markets. The country's GDP for 2024 is projected to continue growing at a similar pace, supported by various structural reforms and government initiatives.



One of the most transformative developments is the inauguration of Indonesia's new capital, Nusantara, in East Kalimantan. The relocation from Jakarta aims to alleviate the severe congestion, pollution, and land subsidence issues affecting the current capital. The new capital project, estimated to cost around USD 32 billion, is expected to boost infrastructure development, create jobs, and stimulate economic growth in less developed regions.



Initiatives to boost the digital economy are underway, with significant investments in ICT infrastructure and support for the startup ecosystem. This sector is poised to be a significant growth driver in the coming years.

Indonesia's Inheritors

The new capital - Nusantara



Strategically, switching the capital away from Jakarta to Nusantara is a well planned move. This draws inspiration from Brazil, where the capital had similarly been shifted from Rio to Brasilia. Moving the capital to a more central location within the Indonesian archipelago enhances national security and administrative efficiency. It places the government closer to other regions, potentially improving governance and service delivery across the nation

Alleviating Overcrowding in Jakarta

Jakarta is one of the world's most congested cities, facing severe traffic jams, overpopulation, and inadequate infrastructure. The city's population exceeds 10 million, with the Greater Jakarta area housing over 30 million people. Moving the capital to Nusantara in East Kalimantan will reduce the population pressure on Jakarta, improving the quality of life for its residents.



Economic Diversification and Regional Development

The relocation aims to promote economic development in regions outside Java, addressing the economic disparity between Java and other islands. This decentralization is expected to spur infrastructure development, job creation, and economic activities in Kalimantan, thus fostering more balanced national growth.



Mitigating Environmental Issues

Jakarta is sinking at an alarming rate due to excessive groundwater extraction, and it faces significant flooding problems. The new capital's location in East Kalimantan is less prone to these environmental challenges, providing a more sustainable setting for the nation's administrative functions.



Enhanced Economic Stability and Growth

The development of the new capital is part of Indonesia's broader strategy to ensure long-term economic stability and growth. By diversifying economic activities and reducing reliance on Java, the country aims to create a more resilient economy. The shift is likely to lead to improvements in infrastructure, logistics, and regulatory environments, making Indonesia a more attractive destination for foreign businesses. Investors can benefit from a more business-friendly environment with enhanced connectivity and modern facilities.

The construction and development of Nusantara present significant investment opportunities in infrastructure, housing, commercial real estate, and smart city technologies.



New President - Prabowo Subianto



In the 2024 Indonesian presidential election, Prabowo Subianto, the former defense minister, emerged victorious. The election was significant as it marked the end of President Joko Widodo's (Jokowi) term, who was constitutionally barred from seeking a third term. Prabowo's win was confirmed by the General Elections Commission (KPU) on March 20, 2024, after he secured over 96 million votes. He will be sworn in on October 20, 2024, with his vice-presidential running mate, Gibran Rakabuming Raka, Jokowi's son.

As he prepares to take office, Prabowo has outlined several key policies and initiatives that aim to continue and expand upon the work of his predecessor

Economic Development and Infrastructure

Prabowo has committed to accelerating the economic growth strategies, which includes continued investment in infrastructure projects such as roads, bridges, and ports to enhance connectivity across Indonesia's vast archipelago. By improving infrastructure, Prabowo aims to facilitate economic activities, reduce logistics costs, and attract foreign investment, ultimately boosting Indonesia's economic growth and development.



Education and Human Capital Development

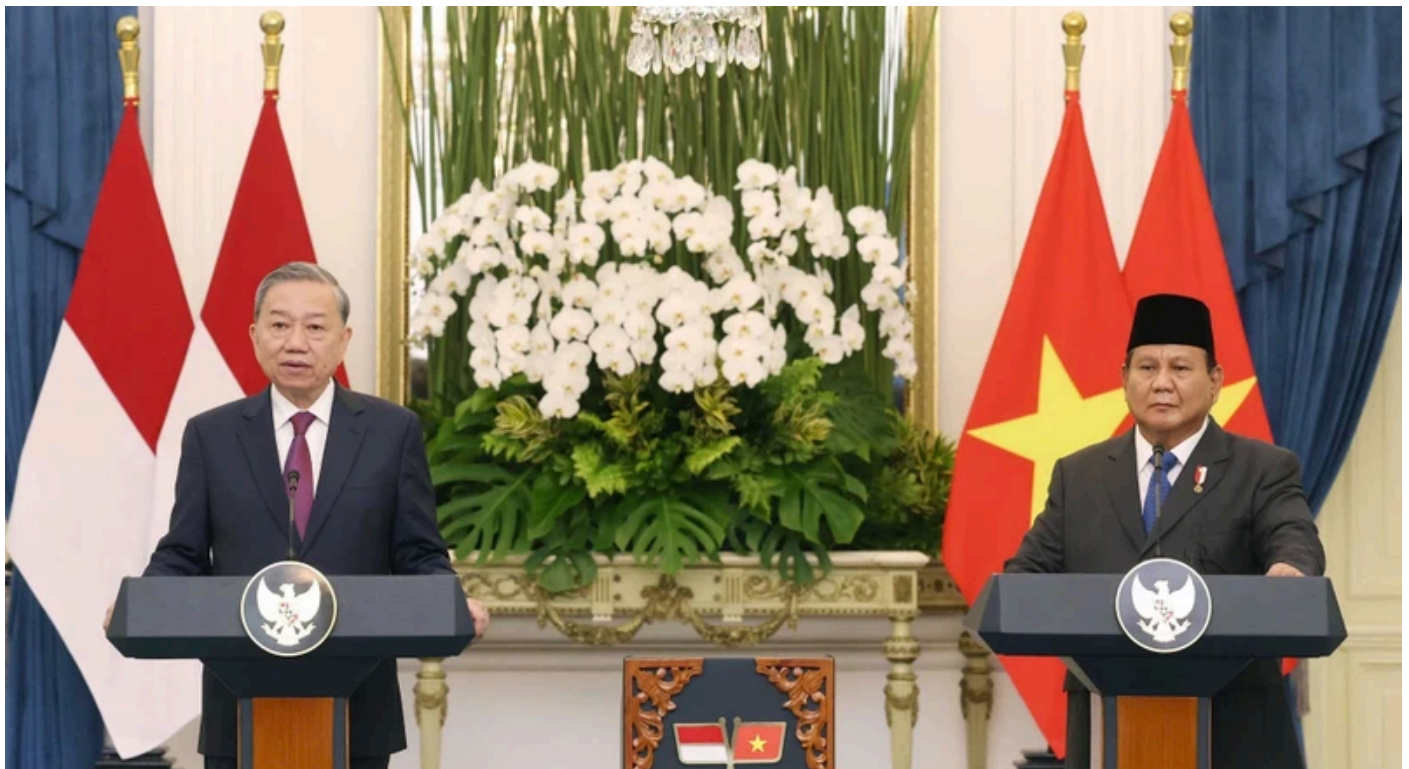
Prabowo plans to focus on improving the quality of education in Indonesia. This includes increasing investment in educational infrastructure, teacher training, and curriculum development. By enhancing the education system, Prabowo aims to develop a skilled workforce that can meet the demands of a modern economy, thus improving Indonesia's competitiveness on the global stage.

Healthcare

He has also highlighted the need to strengthen Indonesia's healthcare system. This involves expanding access to healthcare services, improving healthcare facilities, and ensuring that all Indonesians receive adequate medical care. Enhancing the healthcare system is vital for improving the overall well-being of the population and supporting a productive workforce.

Foreign Policy and Diplomacy

On the international front, Prabowo has expressed his commitment to maintaining Indonesia's non-aligned foreign policy stance. He aims to balance relations with major powers like the United States and China, ensuring that Indonesia benefits from its strategic position without becoming entangled in geopolitical conflicts. Prabowo's recent diplomatic engagements, including visits to Beijing and Tokyo, signal his intent to strengthen Indonesia's international partnerships while safeguarding its national interests.



Increasing mobility in Indonesia

Indonesia is gradually welcoming an increasing number of foreigners to the country. Recently, the country has announced a new scheme of long-stay visas - The Second-Home Visa - which aims to attract foreign enterprises and investors to do business in Indonesia.



Legal Basis

- *Regulation No. 29 of 2021 of the Ministry of Law and Human Rights of the Republic of Indonesia on Visa and Stay Permit*
- *Regulation No. 9/PMK.02/2022 of the Minister of Finance of the Republic of Indonesia on Non-Tax State Income on Immigration Service Type and Tariff*
- *Circular Letter No. IMI-0740.GR.01.01 of Acting Director General of Immigration on Second Home Temporary/Limited Stay Permit and Visa Grant*

The Second-Home Visa is for foreign investors, tourists and retirees, and can also be applied for their family, children, spouse or parents. The visa has a term length of 5 or 10 years. Yet, to be eligible, one prerequisite is a bank deposit of at least 2 billion IDR (equivalent to 130,000 USD) from the applicant. At the same time, other requirements need to be met, namely (1) A legal national passport with at least 36-month validity, (2) A recent coloured 4x6 photograph with a white background, (3) Personal resume.

In addition, the Second Home Visa application for the applicants' family must follow the same aforementioned requirements (except for the bank deposit requirement) along with (1) A valid legal Second Home Visa or Second Home Temporary/Limited Stay Permit (Izin Tinggal Terbatas/ITAS) owned by their spouse, children or parents, (2) A proof of family relationship with the applicants which hold a Second Home Visa or Second Home ITAS.

Investors can apply for a Second-Home Visa through either the official website of the Directorate General of Immigration (www.imigrasi.go.id) or Online Visa Approval (www.imigrasi.go.id) with a fee of 3 million IDR (198.85 USD) per person. The processing time is a maximum of four working days since the payment is made.

Indonesia's Economic Opportunities

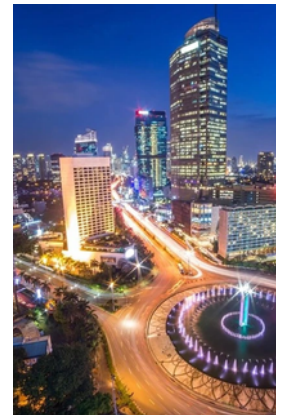


Indonesia's economic landscape is presenting several promising opportunities for growth and investment in 2024, especially in the wake of efforts to strengthen the country's economic foundation and appeal to international investors. Indonesia's economy is projected to grow by 5.0% in 2024, a slight moderation from previous years. This is attributed to the normalization of domestic demand and the stabilization of global commodity prices. The Asian Development Bank highlights that private consumption remains a critical driver of economic growth, supported by easing inflation and steady domestic demand.

Factors of success

Digital Economy

The digital economy in Indonesia is experiencing rapid expansion, driven by widespread internet adoption and a young, tech-savvy population. Key areas of growth include e-commerce, financial technology (fintech), digital services, and online media. Platforms like Tokopedia, Gojek, and Shopee are transforming how Indonesians shop, pay, and consume services. The government supports this sector through initiatives aimed at improving digital infrastructure, such as increasing broadband penetration and promoting digital literacy. The digital economy is expected to contribute significantly to GDP and job creation in the coming years.



Rising Disposable Income

Indonesia has seen a steady increase in disposable income due to sustained economic growth, job creation, and rising wages. Government policies, such as increases in minimum wage and social assistance programs, have also contributed to higher disposable income. This additional income allows households to spend more on consumer goods, housing, education, and healthcare, which in turn supports business growth and economic diversification.



Green Economy Initiatives

Indonesia is focusing heavily on green economy opportunities. The government is committed to reducing greenhouse gas emissions, promoting renewable energy sources, and preserving natural resources. This commitment is expected to foster investment in sustainable industries and enhance long-term economic stability.



Domestic Consumption

Domestic consumption is a crucial driver of Indonesia's economy, making up over 50% of its GDP. The nation's large population, which exceeds 270 million people, provides a substantial consumer base. The growing middle class, which has more disposable income and changing consumption patterns, fuels demand for a wide range of goods and services, from basic necessities to luxury items. This high level of internal demand stimulates economic activity across various sectors, including retail, food and beverages, and entertainment.



National policies and strategies

The Indonesian government has been very proactive to develop more opportunities for economic growth. This has also been supported by the recent policies enacted, which further enhances the potential of the nation.

Government policies

1. Renewable Energy Development

Renewable energy development, as part of a "major project" within the 2024 work plan, allows businesses to be engaged in the development, manufacture, and installation of solar panels, wind turbines, bioenergy, and geothermal plants. There will be opportunities to participate in the research and development of other clean energy technologies. There is also a growing number of initiatives and projects on energy storage systems and smart grid solutions to support the integration of renewable energy sources into the existing power network.



2. Perlinsos (Social Protection) policy

In mitigating the transmission of rising global commodity prices, the Government is making various extra efforts to control inflation through the TPIP/TPID forum, including the Indonesian National Police. "In controlling national inflation, we see some things that need attention, especially the important role of the Indonesian National Police in maintaining affordable prices, availability of supply, and smooth distribution, as well as effective communication," said Coordinating Minister Airlangga.



To maintain people's purchasing power, the Government has prepared a social protection (Perlinsos) budget for 2023 of IDR 476 trillion. The direction of the Perlinsos policy is focused on improving data and targeting the Perlinsos program through Socio-Economic Registration (Regsosek), strengthening poverty graduations, alleviating extreme poverty, and improving people's welfare.

"The government is continuing its social assistance program, including in the next 3 months the government will distribute 10 liters of rice to 21.6 million people through Perum Bulog, and also further assistance in the form of chicken meat and eggs and this is through ID Food," said Coordinating Minister Airlangga.

Private sector's initiatives

Indonesia's economic success has been significantly bolstered by various private sector initiatives that have played a pivotal role in driving growth and development. Key among these initiatives are public-private partnerships (PPPs) and the active engagement of private enterprises in infrastructure, technology, and renewable energy sectors.

One of the standout contributions to Indonesia's economy is the robust framework for public-private partnerships. The Indonesian government, with support from international organizations like the World Bank and the Asian Development Bank (ADB), has established a comprehensive PPP framework. This includes the creation of entities like the Indonesia Infrastructure Guarantee Fund (IIGF) and the Indonesia Infrastructure Finance Facility (IIFF), which provide financial guarantees and facilitate local currency financing for infrastructure projects (World Bank Blogs) (Asian Development Bank). These measures have made it possible to attract significant private investment, particularly in critical infrastructure projects, helping to meet the country's substantial infrastructure needs.



Private sector engagement has also been vital in the digital economy, which has seen rapid growth. Companies like Gojek and Tokopedia (now merged into GoTo) have revolutionized e-commerce and digital payments, significantly contributing to economic growth and creating millions of jobs. The digital economy's expansion has been supported by substantial investments in digital infrastructure, enabling wider internet access and boosting online business activities. Furthermore, initiatives aimed at improving the ease of doing business have fostered a more conducive environment for private sector growth. Reforms in regulatory frameworks, improved access to financing, and efforts to enhance transparency have encouraged both domestic and foreign investments.

The renewable energy sector has also seen active private sector participation. With Indonesia's commitment to reducing carbon emissions and promoting sustainable development, private companies have invested in renewable energy projects. These projects include the development of solar, wind, and geothermal energy facilities, supported by favorable government policies and international financial assistance.

Future outlook

Indonesia's changes bring with it a chance for unprecedented growth. Within the realm of uncertainties, there are many gems poised to grow at a staggering rate, pulling along the GDP and domestic spending. Digital trends drive the economy, and increasing local consumption helps boost the local businesses and industries to grow. Overall, Indonesia's strategic focus on digital economy growth, renewable energy transition, investment climate enhancement, green economy, infrastructure development, and financial sector deepening creates a robust foundation for future economic opportunities. These efforts are expected to attract significant investments and drive sustainable growth in the coming years.

Digital transformation

The increasing penetration of internet and mobile technologies enables businesses to reach wider audiences and operate more efficiently. E-commerce platforms like Tokopedia, Shopee, and Bukalapak facilitate easy market access for small and medium enterprises (SMEs), empowering local businesses to scale and compete on a national and global level. The digitalization of retail and services not only boosts sales but also promotes the development of logistics and supply chain management solutions, enhancing overall market efficiency.

Fintech innovations are revolutionizing the financial services sector by providing inclusive financial solutions. Digital banking, mobile payments, and peer-to-peer lending platforms enhance financial accessibility, particularly for the unbanked and underbanked populations. The education and healthcare sectors are also benefiting from digital transformation. Online learning platforms and telemedicine services improve access to education and healthcare, particularly in remote and underserved areas.

Moreover, the digital economy supports the development of smart cities, integrating technology to improve urban living. The government's commitment to digital infrastructure development and supportive regulatory frameworks creates a conducive environment for digital economic growth. Initiatives such as improving broadband access, enhancing cybersecurity, and simplifying business regulations attract both local and foreign investments.



Renewable energy

Renewable energy is another area with substantial potential for growth in Indonesia, as the country is abundant in renewable energy resources, namely solar, wind, and hydro power. In particular, Indonesia has set a target to generate 23% of its electricity from renewable sources by 2025. According to a report by the International Renewable Energy Agency (IRENA), Indonesia has the potential to generate up to 788 GW of renewable energy, more than 10 times the country's current energy demand.¹

In recent years, the Indonesian government has introduced a number of policies to support the growth of this sector. These include tax incentives for investors, feed-in tariffs for renewable energy producers, and the establishment of a fund to support research and development in the sector.

According to Ministry of Energy and Mineral Resources, following are the subsectors potential for investment:

- Solar energy: Indonesia has significant prospects for solar energy, with an estimated potential capacity of 207 GW. The government aims to install 6.5 GW of solar energy capacity by 2025.
- Wind energy: Indonesia has a moderate potential for wind energy, particularly in coastal areas and on islands. The government has set a target to install 1.6 GW of wind energy capacity by 2025.
- Hydropower: Hydropower is providing great opportunities, particularly in the eastern part of the country, making room for further investment. The government aims to install 6.3 GW of hydropower capacity by 2025.
- Bioenergy: Indonesia has significant biomass and biogas sources. The government has set a target to achieve 5% of its energy mix from bioenergy by 2025, creating opportunities for foreign investors to invest in bioenergy projects in Indonesia.
- Floating solar: Indonesia is famous for its diverse reservoirs and lakes. The government has launched a program to install 1.5 GW of floating solar capacity by 2025.³



¹ <https://www.iea.org/reports/enhancing-indonesias-power-system/executive-summary>

² <https://www.irena.org/Digital-Report/World-Energy-Transitions-Outlook-2022>

³ <https://www.esdm.go.id/en>

Logistics

The logistics industry in Indonesia is poised for significant growth, buoyed by the rapid expansion of the e-commerce market, substantial investments in infrastructure, and the country's strategic location as a regional trade hub. With increasing digitalization and supply chain optimization, opportunities emerge for logistics providers to meet the diverse needs of a burgeoning economy. Government initiatives aimed at trade facilitation and regulatory reforms further bolster the sector.

- **E-commerce Boom:** The rapid growth of e-commerce in Indonesia continues to drive demand for efficient logistics services. With a large and increasingly digital-savvy population, the e-commerce market is expected to expand further, requiring robust logistics infrastructure to support last-mile delivery and fulfillment operations.
- **Infrastructure Investments:** The Indonesian government's commitment to infrastructure development, including transportation networks, ports, and warehouses, enhances the efficiency and connectivity of the logistics sector. Mega-projects such as the National Logistics Ecosystem and the Sea Toll Road initiative aim to reduce logistics costs and improve supply chain efficiency across the archipelago.
- **Supply Chain Optimization:** Increasing adoption of technology and digital solutions, such as data analytics, IoT (Internet of Things), and blockchain, enables supply chain optimization and real-time tracking of goods. Integrated logistics platforms and digital marketplaces facilitate collaboration among stakeholders, streamlining processes and reducing operational costs.
- **Emerging Industries:** The growth of sectors such as manufacturing, retail, and agriculture presents new opportunities for logistics providers. Rising demand for cold chain logistics, warehousing facilities, and value-added services supports the diversification of logistics offerings to meet evolving customer needs.
- **Cross-Border Trade:** The integration of Indonesia into regional economic frameworks, such as ASEAN Economic Community (AEC) and the Regional Comprehensive Economic Partnership (RCEP), expands opportunities for cross-border trade and logistics services. Closer economic cooperation with neighboring countries fosters regional trade flows and strengthens Indonesia's position in global value chains.



Agrifood

Agriculture is an important sector for Indonesia's economy, employing over 29% of the country's workforce.⁴ The country has a large agricultural sector, and there is significant potential to increase productivity and efficiency through the adoption of new technologies and practices.

Palm oil

- Indonesia is the world's largest producer of palm oil, accounting for around 57% of global production.⁵
- The palm oil industry in Indonesia is a significant contributor to the country's economy, employing millions of people and generating billions of dollars in export revenue.
- The demand for palm oil remains strong due to its versatile applications in the food and personal care industries, including in cooking oils, margarine, soap, and cosmetics.
- Indonesia produced only 41.5 million metric tons of palm oil in 2018 and a total of 51 million metric tons will be needed in 2025 to sustain international and domestic demands.⁶
- The National Action Plan for Sustainable Palm Oil was signed by President Joko Widodo in November 2019. The Indonesian government is now working to tailor the national strategy to cater to 6 distinct production regions across the country. This creates opportunities for investors to support sustainable palm oil production practices.⁷

Coffee

- Indonesia is one of the world's largest coffee producers, with an estimated production of 647,000 metric tons in 2021.⁸
- The country is known for producing high-quality Arabica and Robusta coffee beans, with most production centered on the islands of Sumatra, Java, and Sulawesi.
- The coffee industry in Indonesia is mainly composed of smallholder farmers, providing opportunities for investors to collaborate with local coffee farmers in the development of smallholder coffee farming and processing infrastructure.

Cocoa

- Indonesia is the world's third-largest producer of cocoa, with an estimated production of 244,000 metric tons in 2021.⁸
- Most of the cocoa production in Indonesia is centered on the islands of Sulawesi and Papua.
- The government of Indonesia has set a target to increase cocoa production to 600,000 metric tons by 2024,⁹ creating opportunities for investors to support the development of the cocoa industry in the country.

4 <https://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=ID>

5 <https://oec.world/en/profile/bilateral-product/palm-oil/reporter/idn>

6 Full article: Evaluating the palm oil demand in Indonesia: production trends, yields, and emerging issues (tandfonline.com)

7 Indonesia: Sustainable Palm Oil | United Nations Development Programme

8 <https://worldcoffeeresearch.org/focus-countries/indonesia>

9 Frontiers | "Downstreaming" Policy Supporting the Competitiveness of Indonesian Cocoa in the Global Market (frontiersin.org)

The Indonesian government has implemented various measures to promote the agrifood sector, such as providing subsidies for fertilizers and seeds, improving irrigation systems, and supporting research and development. The Food and Agriculture Organization (FAO) assessed that Indonesia has the potential to become a major player in global food markets with its abundant natural resources.



Challenges ahead

Economic Challenges

Indonesia's economic landscape is promising, yet it faces several significant challenges that could affect its growth trajectory. Key issues include global economic volatility, inflationary pressures, dependency on commodity exports, and environmental concerns.

Indonesia's economy is vulnerable to global economic fluctuations, including changes in commodity prices, which have historically been a significant driver of its growth. The World Bank projects that Indonesia's GDP growth will ease slightly to around 5.0% in 2024, with medium-term projections averaging 4.9% through 2026 due to global economic uncertainties.



While inflation in Indonesia is expected to stabilize around 2.5% in 2024 and 2025, there are concerns about the effects of prolonged monetary tightening. Bank Indonesia has indicated that it may start easing monetary policy in mid-2024, but the impact of global interest rate changes and capital flows remains uncertain. The current account deficit is expected to widen slightly in the coming years. For 2024, it is projected to be between 0.1% and 0.9% of GDP, increasing to 0.5% to 1.3% in 2025. This reflects a potential decline in the trade surplus, partly due to easing commodity prices.

Household consumption remains the primary engine of Indonesia's economy. However, real wage gains have been modest, which could limit the potential for consumption-driven growth. Economic activity is also expected to be influenced by the construction activities for the new capital city, Nusantara, providing a mixed outlook for fixed capital formation.

Indonesia has made significant strides in reducing poverty and improving infrastructure, but challenges remain in developing human capital and addressing educational setbacks caused by the COVID-19 pandemic. The loss of learning during school closures could have long-term repercussions on the productivity of the future workforce.

Indonesia's economy is also threatened by climate change, which impacts water availability, health, disaster risk management, and urban development. Sustainable management of its vast natural resources, including tropical rainforests and peatlands, is crucial for long-term economic stability and growth

Besides, the per capita GDP in Indonesia is relatively low, and the more significant number of low-income families and income disparity hamper the Indonesian economy and political position. The government's focus on solving these issues will also undermine its efforts to deal with the lack of infrastructure and funding for education and training to strengthen the workforce's capability. All these factors (among many others) contribute to the country's challenges. Businesses will be directly and indirectly affected by this and must maintain their resilience and sustainability when operating in Indonesia.



Political Challenges

Following the 2024 elections, Indonesia faces several political challenges that reflect the complexities of its democratic and governmental structures. These challenges encompass the country's democratic resilience, legislative fragmentation, governance issues, and rising socio-political tensions. Navigating these issues will be crucial for the new administration to maintain stability and foster development.

Indonesia's democracy, while resilient, shows signs of weakening. Concerns about the quality of democracy are rising, with issues such as the centralization of power and the role of political elites becoming more pronounced. The potential for state apparatus mobilization in elections and the influence of central government appointees in regional governance have raised questions about the democratic process and the independence of electoral institutions.



The rise of political dynasties is a significant issue, highlighted by Jokowi's son, being chosen as Prabowo's vice-presidential candidate. This move has sparked debates about nepotism and the entrenchment of political power within families, potentially undermining the meritocratic aspects of Indonesia's political system.

The political challenges facing Indonesia post-2024 elections will require careful navigation to ensure stability and democratic integrity. Addressing concerns about authoritarianism, nepotism, and coalition politics will be crucial for the new administration. The balance between maintaining Jokowi's developmental legacy and responding to the electorate's desire for change will shape Indonesia's political landscape in the coming years.

Social Challenges

Social challenges also pose a significant obstacle to Indonesia's economic transformation. The Covid-19 pandemic had exacerbated existing social issues in Indonesia, such as poverty, unemployment, and inequality, which are still prevalent in the country.

Indonesia's social protection system needs improvement. The government has introduced several social assistance programs, such as the Cash Transfer for Workers program, which aims to provide financial assistance to workers who have lost their jobs due to the pandemic. However, these programs have faced implementation challenges, such as the difficulties in identifying the eligible beneficiaries and ensuring timely disbursement of the assistance.



The lack of adequate social protection has also been highlighted as a significant factor that limits Indonesia's potential to achieve inclusive and sustainable economic growth. A recent report by Oxfam stated that Indonesia ranks poorly in terms of social protection, with only 20% of the population having access to social security.¹⁰ The report also highlighted that Indonesia has one of the lowest levels of public spending on social protection in Southeast Asia.

Another social challenge that Indonesia faces is gender inequality. Despite progress in recent years, Indonesia still has a significant gender gap in various areas, in which the inequality in employment is most prominent. According to the World Economic Forum's Global Gender Gap Report 2021,¹¹ Indonesia ranks 85th out of 156 countries regarding gender equality. The report highlights that women's economic participation and opportunity in Indonesia are meager, with only 51% of women participating in the labor force, compared to 84% of men.

¹⁰ Shelter from the storm: the global need for universal social protection in times of COVID-19 | Oxfam International

¹¹ <https://www.weforum.org/reports/global-gender-gap-report-2021/>

Furthermore, women in Indonesia face a “glass ceiling” in the workplace, as they are often paid less than their male counterparts for the same work. According to the International Labour Organization,¹² the gender pay gap in Indonesia is 23.7%, which means that on average, women earn only 76.3% of what men earn. This disparity not only affects women’s economic empowerment but also perpetuates the gender gap in other areas, such as education and political representation, by limiting their access to resources and opportunities.



Despite these challenges, Indonesia’s economy has shown resilience and recovery. The International Monetary Fund (IMF) has praised Indonesia’s handling of the Covid-19 crisis, stating that the government’s policy response has helped limit the economic impact of the pandemic.¹³ The World Bank has also acknowledged Indonesia’s resilience in the face of the pandemic, noting that the country’s diverse economy has helped it weather the crisis.¹⁴



12 https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm

13 IMF Commended Indonesia for Maintaining Economic Stability in the Midst of Covid-19 Pandemic

14 IMF Executive Board Concludes 2022 Article IV Consultation with Indonesia

How to venture into Indonesia



Indonesia is presenting an attractive destination for foreign investors. However, investing in Indonesia can be complicated due to the country's complex regulatory environment, bureaucratic processes, and cultural differences. In this section, we will provide a step-by-step guide on how to invest in Indonesia, the investment incentives and policies, and mindful notes for investors.

Two common forms of business in Indonesia

In Indonesia, prospective business owners can start any company of any sort as long as they fulfill all the necessary criteria and regulations. Two of the most important and well-known types of business entities in Indonesia are Perseroan Terbatas (PT) and Perseroan Terbatas Penanaman Modal Asing (PT PMA). PTs or PT PMAs can be found all over the country. They form a large part of Indonesia's economic backbone and contribute to the country's collective success.

	PT PMDN ¹⁵	PT PMA ¹⁶
Business sector	Not limited like PT PMA	The Indonesian government does not open the market for foreign investment in all sectors. Some sectors are fully closed to foreign investment, some sectors are fully open to foreign investment, while others are partially closed (meaning the foreign investor can only hold a specific maximum stake in the PT PMA; the remaining shares have to be controlled by Indonesian individuals or Indonesian companies)
Minimum capital requirements	A micro-enterprise: less than IDR 1 billion A small enterprise: IDR 1 – 5 billion A medium enterprise: IDR 5 – 10 billion A large enterprise: more than IDR 10 billion	The minimum amount of paid-up share capital is IDR 10 billion (Perka BKPM No4 Year 2021). Investors are required to declare a minimum investment plan of IDR 10 billion. Once the registration process for PT PMA is completed and the Capital Statement Letter is issued, the initial investment should be transferred to the company's bank account.
Shareholders	100% local shares A PT (Perseroan Terbatas) must have a minimum of two shareholders or members. There is no specified limit on the maximum number of members allowed.	Foreign ownership varies between 0% - 100% depending on the Negative Investment List To register a company, it is mandatory to have a minimum of two shareholders, who can be either individuals or legal entities. The shareholders typically consist of the CEO and the Commissioner.
Report obligations	No	Reports on business activities to the BKPM every 3 months

¹⁵ <https://www.viettonkinconsulting.com/global-business/setting-up-a-company-in-indonesia-part-one/>

¹⁶ <https://www.viettonkinconsulting.com/global-business/setting-up-a-company-in-indonesia-part-two/>

Setup procedure to establish a business in Indonesia

To set up a business in Indonesia, investors are advised to follow the 5 steps below:

Step 1: Choose a company name

You should avoid selecting names that:

- Are similar to existing companies
- Are identical or similar to any name of a state, government, or an international agency without official approval
- Fail to conform to the purposes/ objectives/ activities of the company
- Consist of a set of numbers, letters, or figures that does not form any meaningful words



Step 2: Apply for Deed of Establishment

- The required step is to determine the appropriate industrial business classification code (KBLI) based on the intended business activities.
- The Deed of Establishment must be submitted online, along with the certificate of the bank account and an official copy of the bank transfer advice. If the application is approved, you will receive a formal authorization for the company's establishment and will be able to publicly announce the establishment within 14 days.



Step 3: Obtain a tax registration number (NPWP)

The documents required for this application include:

- Deed of Establishment
- Identity card of the director
- A statement letter to confirm the location of business



Step 4: Obtain the business identification number (NIB)

The NIB is obtained from the Online Single Submission.

NIB stands for "Nomor Induk Berusaha," which is a business identification number in Indonesia. It is a mandatory requirement for all business entities to obtain an NIB as part of the business registration process.

The Indonesian government developed a "Online Single Submission (OSS)" online site under www.oss.go.id in accordance with Government Regulation Number 24 of 2018 on Integrated Business Licensing Services via Electronic Systems ("GR 24/2018"). The OSS system is a digital platform that facilitates the process of business registration and licensing in Indonesia.

Advantages of using the OSS system:

- Simplifying the management of various business permits with a mechanism to fulfill the commitment to permit requirements.
- Enabling business actors to interact with all stakeholders and acquire permits securely, quickly, and in real time.
- Enabling business actors to report and solve licensing issues in a single location.
- Enabling business actors to store licensing data in a single business identity (NIB).

To obtain an NIB through the OSS system, the following steps can be taken:

1. Access the OSS website at <https://oss.go.id/> and create an account.
2. Choose the "New Business Entity" option and fill in the required information, including the type of business, location, and ownership structure.
3. Upload the necessary documents, such as the company's articles of association, shareholders' identity documents, and other relevant permits and licenses.
4. Submit the application and pay the necessary fees through the OSS system.
5. Once the application is approved, the NIB will be issued, and the company can proceed with the remaining registration and licensing requirements.

It is worth noting that the procedures for obtaining an NIB and registering a business may vary depending on the type and size of the business, as well as the location and other factors.



Step 5: Apply for other relevant documents and licenses

- **Business License:** This is a permit that allows a company to operate in Indonesia and is issued by the local government.
- **Company Registration Certificate (TDP):** This is a document that indicates a company's official registration with the government.
- **Construction Permit:** This is required for any construction or renovation work.
- **Environmental Permit:** This is required for businesses that may have an impact on the environment, such as those in the manufacturing or mining industries.
- **Health and Safety Permit:** This is required for businesses that may have health and safety risks, such as those in the food or hospitality industries.



Investment incentives and policies

Indonesia has been implementing several policies and incentives to attract foreign investments and stimulate economic growth. The Indonesian Investment Coordinating Board (BKPM) is the primary agency responsible for promoting and facilitating investments in the country.

Special Economic Zones

As of 2023, Indonesia has 12 in operation and 7 in the construction phase. Specifically, eight are designated for tourism, with the rest for manufacturing and processing.

The Special Economic Zones (SEZs) provide various incentives and facilities to foreign investors. Some of the main benefits and incentives provided to businesses operating in SEZs in Indonesia include:

- **Tax Incentives:** Businesses operating in SEZs are eligible for tax holidays of up to 20 years, as well as exemptions or reductions in import duties, income tax, and value-added tax (VAT) on imported goods.
- **Simplified Customs Procedures:** SEZs offer streamlined customs procedures and faster clearance times for imported and exported goods, reducing the time and cost of doing business.
- **Infrastructure Support:** The government provides infrastructure support, such as roads, ports, and utilities, to SEZs to facilitate business operations.
- **Regulatory Support:** Businesses in SEZs are subject to more relaxed regulations in areas such as labor, land acquisition, and environmental permits, making it easier and faster to start and operate a business.
- **Investment Opportunities:** SEZs offer a range of investment opportunities, including access to skilled labor, technology transfers, and partnerships with domestic and international companies.



The government plans to develop several SEZs into world-class business and investment destinations. In particular, the government plans to expand the Bintan Integrated SEZ in Riau Islands Province into a hub for tourism, technology, and industrial activities. The government plans to invest in infrastructure development, including a new airport, seaport, and industrial park.



In addition, the Batam-Bintan-Karimun SEZ is in the government's development plans, which cover Batam Island, Bintan Island, and Karimun Island into a logistics, tourism, and manufacturing hub. The government plans to invest in infrastructure development, including the expansion of the Batam airport and seaport and the construction of a new seaport in Bintan.

Along with that, Indonesia plans to develop the Mandalika SEZ in West Nusa Tenggara Province into a world-class tourism destination. The government plans to invest in infrastructure development, including expanding Lombok International Airport and constructing new hotels and resorts.



Similarly, the Tanjung Lesung SEZ in Banten Province will be transformed into a hub for tourism, aquaculture, and manufacturing activities. The government plans to invest in infrastructure development, including the construction of a new airport and seaport and the development of an industrial park.

Tax incentives Economic Zones

The Government Regulation Number 78¹⁷ was issued on December 13, 2019, setting out diverse tax incentives for investors in specific industries and provinces in Indonesia. The highlight of the regulation is specified as follow:

- Based on the value of the qualified investment projects in tangible fixed assets including land used for main business activities, investors shall receive a 30% deduction from net income, provided over 6 years (5% per year).
- A 10% withholding tax on dividends is paid to non-resident taxpayers, apart from permanent establishments in Indonesia, or lower rate according to an applicable tax treaty.
- Investors shall be granted an extended loss carry-forward period up to 5 years, based on the sector of investment, the size of the investment project, and the project's impact on job creation. Along with that, the R&D cost for product development or production efficiency is at least 5% of the investment, and exports account for 30% of sales in a year for investment in certain sectors.

At the same time, businesses investing in Indonesia' Special Economic Zones shall enjoy tax exemptions in income tax, value-added tax (VAT), import duties, sales tax on luxury goods, and excise duties.



¹⁷ <https://regionalinvestment.bkpm.go.id/pir/insentif/>

Corporate Income Tax (CIT)

Exemption on CIT

Regarding CIT exemption in an SEZ, the business taxpayers are divided into 2 types, which are "badan usaha" (business entities) and "pelaku usaha" (business person). Both types are eligible for a 100% reduction in CIT if their investments are implemented in SEZs and with a minimum value of USD 7 million for a period of 10 years.

Yet, investors may receive more concession period corresponding to the scale of their investment as specified in the following table:

Taxpayers	Investment amount	Concession period (years)
Business entity	USD 7 million (Rup 100 billion)	10
Business person	USD 7 million - USD 35 million (Rup 100 million - Rup 500 billion)	10
	USD 35 million - USD 70 million (Rup 500 billion - Rup 1 trillion)	15
	Over USD 70 million (Rup 1 trillion)	20

After the incentive period expires, taxpayers (both business entities and business persons) shall enjoy a 50% CIT reduction for the subsequent two years. A mindful note for investors is that no withholding tax is applied to eligible income during the concession period.



In addition, under the Regulation No. 130/PMK.010/2020 ("PMK-130") providing changes to MoF Regulation No. 150/ PMK.010/2018 ("PMK-150") on tax holidays, the PIT reduction period of the Tax Holiday incentive is as follows:

IDR	Tax holiday facility	Tax holiday period
More than or equal to IDR 100 billion but not more than IDR 500 billion	50%	5 years
More than or equal to 500 billion but not more than 1 trillion	100%	5 years
More than or equal to 1 trillion but not more than 5 trillion	100%	7 years
More than or equal to 5 trillion but not more than 15 trillion	100%	10 years
More than or equal to 15 trillion but not more than 30 trillion	100%	15 years
More than or equal to 30 trillion	100%	20 years

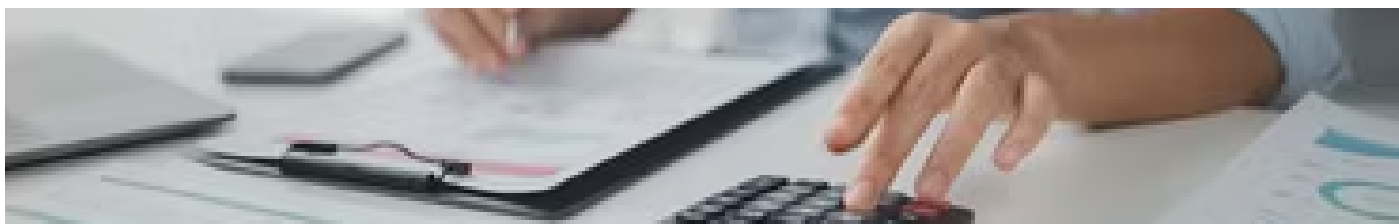


CIT allowance

With an investment value of USD 7 million (Rup 100 billion), taxpayers shall be granted several CIT allowances, as follows:

- Net income on the total investment in fixed assets is reduced by 30% over six years 5% per year;
- CIT allowances for accelerated depreciation of tangible and intangible assets up to 100%;
- A 10% withholding tax rate, or the treaty rate (whichever is lower) on paying dividends shall be made to non-resident recipients
- Tax loss shall be carried forward for up to 10 years.

In addition, under the Regulation No. 130/PMK.010/2020 ("PMK-130") providing changes to MoF Regulation No. 150/ PMK.010/2018 ("PMK-150") on tax holidays, the PIT reduction period of the Tax Holiday incentive is as follows:



Import and excise duties

Import and excise duties and tax on importation shall be all exempted if capital goods are used for the construction or development of SEZs in a 5-year period, or if the consumable raw materials are imported as the input for service industries (for tourism SEZs), or if the entry of goods are to be sold in shops and shopping centers (for tourism SEZs).

VAT and sales tax on luxury goods

Investors are not subject to VAT in the following cases:

- A business entity imports taxable tangible goods into an SEZ.
- Taxable tangible goods are delivered from another Indonesian free trade zone, customs area, or bonded warehouse facilities to a business entity
- Taxable services or goods are delivered by a business entity from an SEZ to another business entity in the same or another SEZ,
- Consumer goods are imported into a tourism SEZ

In addition, the VAT shall not be collected in case raw materials are needed to produce taxable services or goods related to ship and aircraft maintenance, repair, and overhaul (MRO) activities.

Eligibility criteria

To enjoy all the aforementioned tax incentives, investors must meet several requirements as follows:

- Acquiring business license(s)
- Being a domestic corporate taxpayer
- Getting approved by the Indonesian Investment Coordinating Board, based on the company's standard industrial classification (KBLI);
- Location of the investment project
- Eligible type of production/ services to be conducted

Export-Import incentives

Indonesia provides various incentives to companies that export goods and services. These incentives include tax holidays, import duties exemptions, and government financing access. To be more specific, some of these incentive programs include:

Export Tax Incentives

The government provides export tax incentives under the Export-Oriented Industry (KITE) scheme, allowing exporters to enjoy lower income tax rates and exemption from value-added tax (VAT) on imported raw materials and inputs.

One of Indonesia's primary export tax incentives is the Export Duty Exemption Facility. This facility exempts export duties for businesses that meet specific criteria, such as exporting a minimum percentage of their products or using locally sourced raw materials in their production processes. The exemption applies to various products, including agricultural commodities, textiles, and mineral products.

Another export tax incentive is the Export Duty Refund Facility. This facility refunds export duties paid by businesses that meet specific criteria, such as exporting non-oil and gas products with high value-added content. The refund can be up to 100% of the export duty paid.



Free Trade Agreements

In 2022, the Indonesian government allocated IDR 372.9 billion (approximately USD 26 million) to support trade promotion activities.¹⁸ This includes participating in international trade fairs, missions, and buyer-seller meetings. The government aims to promote Indonesian exports in key markets, including the United States, European Union, and China.¹⁹

Thus, Indonesia has participated in several Free Trade Agreements (FTAs)²⁰ with countries and regions worldwide. Under these FTAs, participating countries will enjoy eliminated or reduced tariffs on a wide range of goods. The agreements also include provisions on rules of origin, customs procedures, intellectual property rights, competition policy, and dispute settlement.

As of 2022, Indonesia has signed and ratified 41 FTAs, namely Indonesia-European Free Trade Association Comprehensive Economic Partnership Agreement (IE-CEPA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Regional Comprehensive Economic Partnership (RCEP), among others. These agreements are expected to promote trade, and investment flows between Indonesia and other countries, providing new business opportunities and contributing to Indonesia's economic growth.



¹⁸ <https://www.adb.org/news/indonesia-economic-growth-strengthen-2022-2023-adb>

¹⁹ <http://ppejp.kemendag.go.id/en/indonesian-trade-promotion-center/>

²⁰ <https://aric.adb.org/fta-country>

Mindful notes for investors venturing into Indonesia

It is essential to keep in mind the following notes when investing in the country:

Be aware of cultural differences and adapt accordingly

Despite being home to more than 700 local languages, Indonesia's official language is Bahasa. In addition, English is also commonly spoken. Yet, it is advisable to learn a few common phrases in Bahasa and use simple English to avoid technical jargon.

Dos	Don'ts
Greet your business partner with a handshake, and use formal titles such as Pak (Mr.) or Ibu (Mrs.)	Use informal language or slang when speaking with your business partners
Show respect for Indonesian customs and traditions, such as by removing your shoes before entering a home or temple	Touch anyone's head, as it is considered rude in Indonesian culture
Exchange business cards at the beginning of a meeting, and use both hands when giving or receiving them	Give or receive anything with your left hand, as it is considered impolite in Indonesian culture
Be patient and take time to build relationships with your business partners, as trust and personal connections are important in Indonesian business culture.	Be too direct or forceful in your communication style, as it may be perceived as rude or aggressive.

Be proactive to understand the bureaucratic process

Indonesia's bureaucratic process can be challenging for foreign investors to navigate. Therefore, to overcome the initial challenges, investors are advised to self- research the process in advance, which helps them better prepare for potential challenges or setbacks. This can help them to mitigate risks and to develop contingency plans, while also giving them more independence and control over the process, which can be beneficial in negotiations and business dealings.

Do your own homework by conducting thorough market readiness research prior to investing

Conducting thorough market research is critical to the success of any investment in Indonesia. Investors should take the time to analyze the market trends, potential competition, consumer behavior, and market potential. In addition, they are advised to thoroughly examine the favorable policies and market entry requirements prior to making investments in Indonesia. This could help investors identify gaps in the market and make informed decisions about their business operations.

You can search for the conditioned or restricted sectors to invest in in [this negative list](#).

Understand the local legal system and stay updated with the regulatory environment and policy changes

Indonesia has a rapidly evolving regulatory environment. Therefore, understanding the legal framework and local laws, along with updating with any regulatory changes and policy developments are essential. This could help foreign investors be aware of the potential impact of such changes on their business operations and take necessary steps to comply with any new requirements.

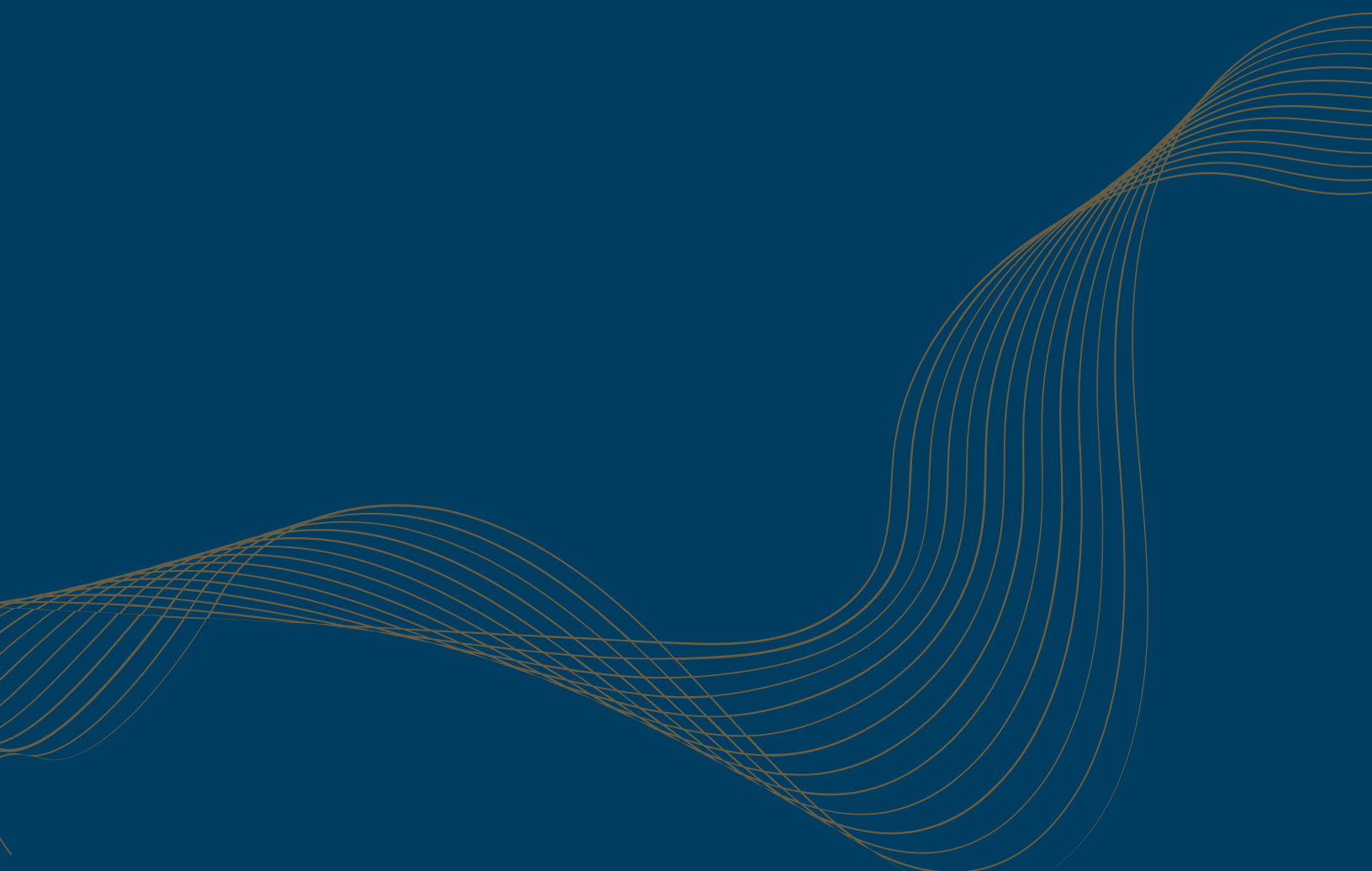
Conclusion

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The Covid-19 pandemic has brought significant challenges to the Indonesian economy, from economic to social challenges. However, Indonesia has shown remarkable resilience and agility in adapting to this new normal, with the timely policies and support from the government, and the determination of the business community to thrive. This has opened up tremendous opportunities for foreign investors who are looking to expand their presence in the region.

Nonetheless, navigating the Indonesian market can be complex, and foreign investors need to be well-informed about the regulatory environment and the local business culture. To maximize their chances of success and avoid potential pitfalls, investors are highly encouraged to seek the guidance and expertise of strong local consultants.

As Indonesia continues its transformation journey, it remains a promising destination for investment, with a vibrant market and a dynamic workforce. By working together with local partners and leveraging the strengths of the country, foreign investors can contribute to Indonesia's growth and prosperity, while achieving their own business objectives.



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