

Guide to Indonesia

*Opportunities and Limitations
in Manufacturing*



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Disclaimer

This material is prepared and intended for general information and reference purposes only. It does not cover exhaustively the subject it treats, but is intended to answer some of the important broad questions that may arise. When specific issues arise in practice, it will often be necessary to consider the relevant laws and regulations, and to obtain appropriate professional advice. The information contained here is current at the date of publishing and may change over time, and no representation, expressed or implied, is made as to its accuracy, completeness or correctness.

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1. Overview of Indonesia

Executive Summary

Indonesia is the fourth most populated country in the world. It is an emerging middle income country with a robust projected gross domestic product (GDP) growth. The country is currently in the third phase of a 20-year economic development plan. The current plan is designed to foster infrastructure development and focuses on social assistance programmes in education and healthcare.

Indonesia has only signed two bilateral trade agreements and is finalising a third one with Chile. These agreements eliminate tariffs and incentivise investments in a number of industries. As part of the Association of Southeast Asian Nations (ASEAN), Indonesia also benefits from six other multilateral trade agreements with Mainland China, South Korea, Japan, India, Australia and New Zealand.

Indonesia is the third largest democracy in the world. Foreign investors are recommended to consider the political tensions arising from the latest presidential election before investing in the country.



1. Overview of Indonesia

I. Country Profile^{1,2,3,4,5,6,7}

Indonesia is an emerging middle income country with an estimated gross domestic product (GDP) growth rate of 8.5% in 2018-19. The country's economy is mainly supported by its large domestic demand. Indonesia is currently the fourth most populated nation in the world. The country's economic development is shaped by a 20-year plan spanning from 2005 to 2025, which is segmented into five-year plans called the Rencana Pembangunan Jangka Menengah Nasional (RPJMN). The current plan (2015-2020) focuses on infrastructure development and on supporting programmes targeting education and healthcare. To achieve its economic goals, Indonesia still has to tackle the poverty issue. In 2017, around 10% of its population lived below the poverty line.



GDP (in USD)

1,130.3 billion (2019f)
1,041.8 billion (2018)



GDP Per Capita (in USD)

4,193 (2019f)
3,904 (2018)



Economic Structure

(in terms of GDP composition, 2017)

Agriculture: 13.7%
Industry: 41.0%
Services: 45.3%



External Trade (% of GDP)

Import: 22.1% (2018)
Export: 21.0% (2018)



Population

269.54 million (2019)
World ranking: 4/191



Median Age

30.5 (2018)
World ranking: 116/228 (from oldest to youngest)



Language

Bahasa Indonesia (official)
English
Dutch



English Literacy

Low proficiency (2018)
World ranking: 51/88



Government Structure

Multiparty Republic



Land Area

1,811,570 sq km

II. Country Profile on Trade

A. International Trade Agreements and Restrictions

International trade agreements provide various benefits for participating countries with the aim of enhancing economic growth for all parties. They allow companies located in two or more countries to trade goods with each other at reduced or zero tariffs. Indonesia is a member of the World Trade Organization since 1995 and is a founding member of the Association of Southeast Asian Nations (ASEAN). This grants the country preferential access to international trade and to goods and services exchange in the Southeast Asian region.

Indonesia has only two effective bilateral trade agreements, but as part of the ASEAN, it benefits from signed and effective trade agreements with six countries: Mainland China (2005), South Korea (2007), Japan (2008), India (2010), Australia and New Zealand (2010). In addition, the ASEAN – Hong Kong Free Trade Agreement (FTA) came into effect in June 2019 (see section below).

Indonesia is currently finalising an FTA with Chile, which will offer 3,000 Chilean products preferential access to the Indonesian market. In addition, the country has launched negotiations with eight potential partners and has proposed FTA to eight other countries. Moreover, Indonesia is also part of two organisations which have or are negotiating trade agreements: the Regional Comprehensive Economic Partnership and the Developing 8 (D8) Organization. (*Note*)

Signed and Effective Bilateral Trade Agreements⁸

	Affected Industry	Agreement (signing date)
	<ul style="list-style-type: none"> Manufacturing Agriculture 	<p>Indonesia-Japan Economic Partnership Agreement (2008)</p> <ul style="list-style-type: none"> Enhance cross-border trade of goods and services by eliminating import duties. Foster Japan's investments in Indonesia and liberalise travel regulations between the two countries. Strengthen bilateral cooperation in sectors such as manufacturing, agriculture, forestry and fishery.
	<ul style="list-style-type: none"> Agriculture 	<p>Indonesia-Pakistan Preferential Trade Agreement (2013)</p> <ul style="list-style-type: none"> Preferential tariffs on more than 200 products. Pakistan is granted a 15% margin of preference on the standard tariff rate applicable to Indonesian palm oil products.

The Regional Comprehensive Economic Partnership (RCEP)⁹

This partnership is currently being negotiated between the ASEAN members and their FTA partners (i.e. Mainland China, South Korea, Japan, India, Australia, New Zealand). The RCEP is designed to be a mutually beneficial economic partnership that will foster cooperation and integration between the 16 countries. The agreement aims to lower tariffs and other barriers to enhance trade between the partners.

Developing 8 (D8) Organization for Economic Cooperation¹⁰

Trade agreement between eight developing countries (i.e. Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, Turkey) to foster economic cooperation in industries such as agriculture, automotive, energy, textile and pharmaceuticals, etc.

Note: Indonesia is also a member of the Organisation of the Islamic Conference which is considering a trade preferential system.

The Association of Southeast Asian Nations (ASEAN)⁹

The ASEAN was founded in 1967 and currently has 10 members. The five founding members are Indonesia, Singapore, Malaysia, the Philippines, and Thailand. The remaining five countries joined in subsequent years: Brunei in 1984, Vietnam in 1995, Laos in 1997, Myanmar in 1997, and Cambodia in 1999.



The Association's Three Major Goals:

- Acceleration of economic growth, social progress and cultural development in the region;
- Promotion of regional peace and stability in Southeast Asia; and
- Foster cooperation and mutual assistance in economic, social, cultural, technical, scientific and educational fields.

The ASEAN Free Trade Area (AFTA)

In 1992, ASEAN countries decided to strengthen this comprehensive cooperation by implementing the AFTA. The main objective of the AFTA is to increase the region's economic competitive advantage through trade liberalisation and the elimination of tariffs and non-tariff barriers among the ASEAN members.

The Common Effective Preferential Tariff (CEPT) Agreement for AFTA reduces the tariff rates on a wide range of products within the region to 0-5%. In addition, restrictions on quantity traded and other non-tariff barriers are eliminated.

The CEPT covers all manufactured products, including capital goods and processed agricultural products, and those falling outside the definition of agricultural products. Agricultural products are excluded from the CEPT Scheme (further details on www.asean.org).

There are only three situations where a product can be excluded from the CEPT Scheme:

- General Exceptions: a member may exclude a product considered necessary for the protection of its national security, the protection of public moral, the protection of human, animal or plant life and health, and the protection of articles of artistic, historic or archaeological value;
- Temporary Exclusions: a member which is temporarily not ready to include certain sensitive products (i.e. rice) in the CEPT Scheme may exclude such products on a temporary basis; and
- Unprocessed agricultural goods.

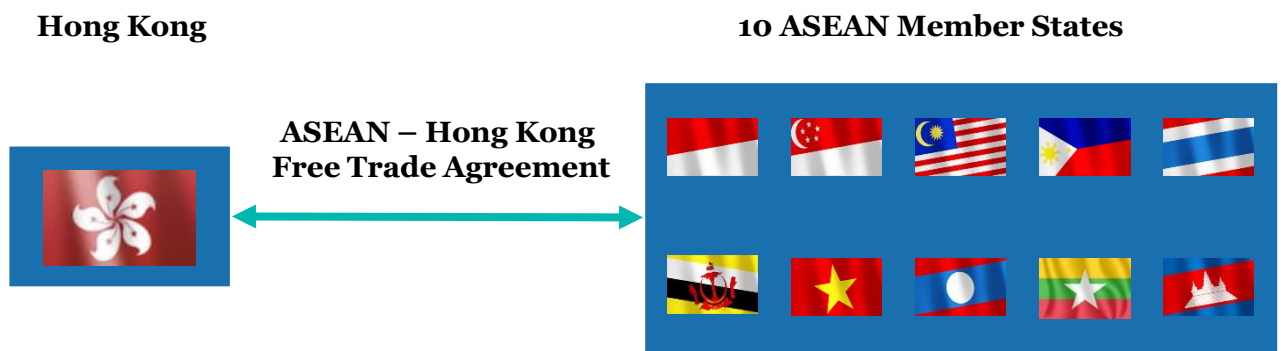
International Trade Agreement between Hong Kong and ASEAN¹¹

Overview

Trade within the region has been booming since the removal of tariffs between the ASEAN member states in 2015.

Hong Kong and ASEAN announced the conclusion of negotiations on their Free Trade Agreements in September 2017 and forged agreements on 12 November 2017. Member states agreed to progressively cut down or eliminate custom duties on goods originating from Hong Kong. The agreements are comprehensive in scope and cover trade of goods, trade of services, investments, economic and technical cooperation, dispute settlement, and other relevant areas.

ASEAN was Hong Kong’s second largest merchandise trade partner in 2018 with a total value of HKD 1.1 trillion (around 12% of the total trade value).







Entry

Free Trade Agreement: 11 June 2019

Investment Agreement: 17 June 2019

Both for the parts relating to Hong Kong and Laos, Myanmar, Singapore, Thailand, and Vietnam. The dates of entry for the remaining five countries have not been announced yet.

Affected Major Industries		Other Affected Industries	
The tariff reduction commitments cover different kinds of major Hong Kong export commodities, such as (non-exhaustive):			
 Jewellery	Watches and Clocks 	<ul style="list-style-type: none"> • Food and Beverages • Chemicals • Pharmaceutical • Metals • Plastics & Rubber • Footwear • Machinery and Mechanical Appliances 	
 Apparel and Clothing Accessories	Toys 		

B. Government Structure¹²

Indonesia is a multiparty democracy with a presidential system.

- The executive power is held by the President and the Vice President. They run as a pair and are elected by direct popular vote for a five-year term with the possibility of being re-elected for a second term, for a total of 10 years. The President governs together with a council of ministers, known as the Cabinet, appointed by him.
- The People's Consultative Assembly (Majelis Permusyawaratan Rakyat, MPR) holds the legislative power. The MPR is composed of two houses and has the power to draft and change the Constitution, and to impeach the President/Vice President pair.
- The judiciary power is held by the Supreme Court (Mahkamah Agung) which is independent from the executive branch.

In 1998, Indonesia implemented a decentralisation policy which provides more independence to its 34 provinces. The elected local government executes the majority of functions, except a few key areas which are controlled by the central government (i.e. foreign affairs, defence, justice, monetary policy and religion).

C. Political Uncertainties and Historical Coup Record^{13,14}

Indonesia is not considered a politically stable country. The country ranked 135th out of 194 countries in the World Bank's Political Stability Index (with a below average value of -0.51 in 2017).

Indonesia's democratisation process started in 1999 with its first free election. Before that, the country only had two Presidents: Sukarno, the first President of Indonesia who served from 1945 to 1967 and fought for the country's independence from the Dutch; and Suharto who ruled from 1967 to 1998 with a centralised and military dominated government. When he was in power, only three parties were authorised. However, after his resignation in 1998, restrictions were withdrawn and the number of parties grew significantly to more than 100.

Four presidential elections have been held since then. The latest election took place in April 2019. The early results announced that running President Joko Widodo had beaten former Army General Prabowo Subianto, who did not accept his defeat and filed a lawsuit claiming that the election was rigged. In June 2019, the Indonesia court ruled against the General, therefore officially acknowledging Widodo's victory. This legal battle aroused political uncertainty in the country and led to heavy protests in Jakarta against the election results. The confrontation between Subianto's supporters and the police resulted in nine deaths and hundreds injured.

Source:

¹ *The World Bank in Indonesia, The World Bank, Apr 2019*

² *Indonesia 10-Year Forecast, Fitch Solutions, 2019*

³ *The World Factbook, Central Intelligence Agency*

⁴ *Imports of Goods and Services (% of GDP), Exports of Goods and Services (% of GDP), World Bank*

⁵ *Indonesia population, Worldometers, 2019*

⁶ *EF English Proficiency Index, EF Education First*

⁷ *Geography Statistics Of Indonesia, Worldatlas*

⁸ *Free Trade Agreements, Asia Regional Integration Centre*

⁹ *ASEAN official website*

¹⁰ *Developing 8 official website*

¹¹ *The Government of Hong Kong Special Administrative Region – Trade and Industry Department, Press Release, May 2019*

¹² *Doing Business in Indonesia, Mazars, 2018*

¹³ *Political Stability Index, The World Bank, 2017*

¹⁴ *Indonesian court rejects appeal against election result, The Guardian, 2019*

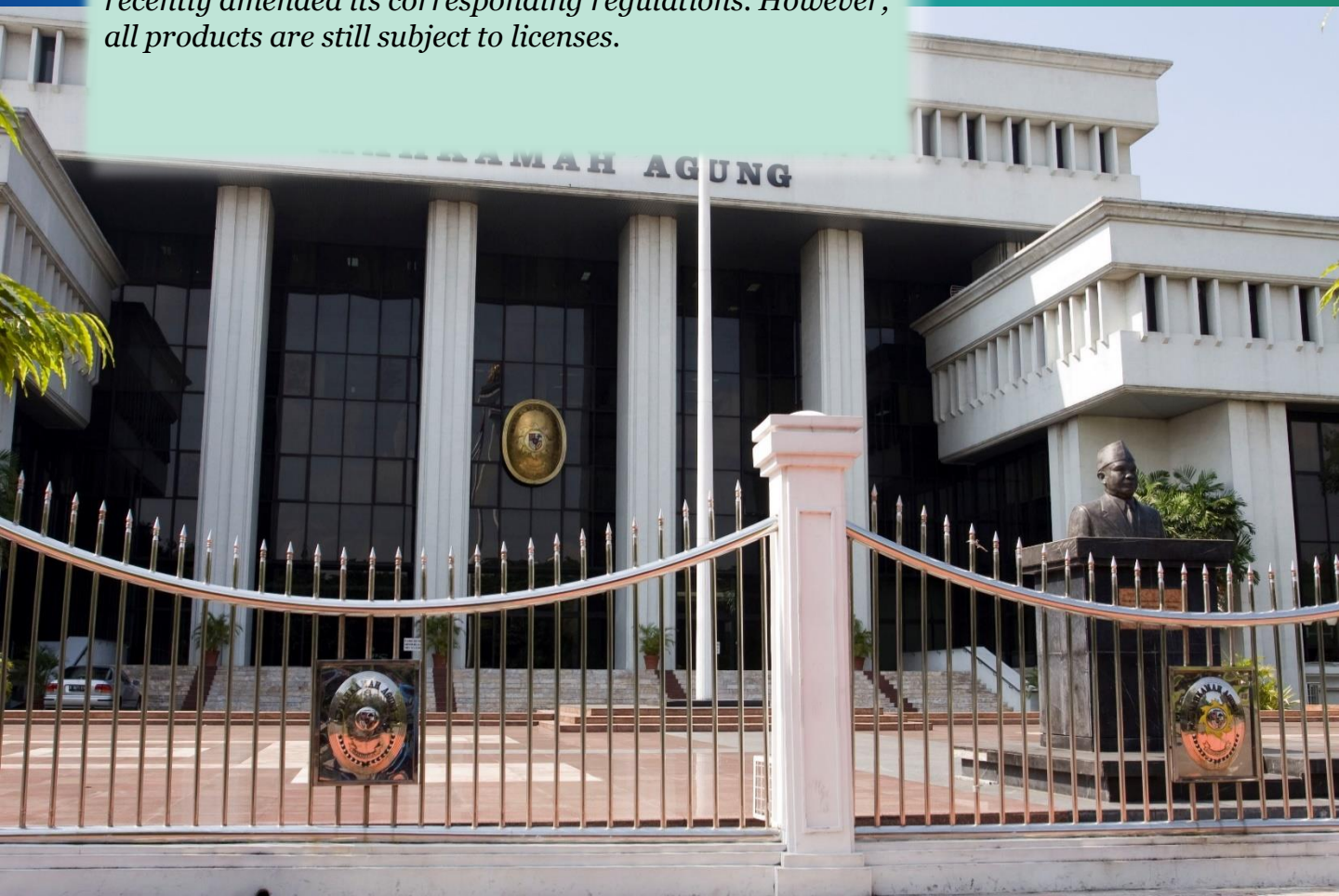
2. Legal Environment and Competition Law

Executive Summary

Indonesia welcomes foreign investments, as government policies ensure that foreign and local businesses act together to upskill domestic companies. In 2016, a new presidential regulation, which is viewed as more liberalised and protective towards foreign investments, was published.

Mainland China and Hong Kong companies can choose to set up different types of business entities in Indonesia. For example, it is possible to set up a 100% foreign-owned enterprise such as a Limited Liability Company, among others. In addition, foreign investors can set up a representative office to explore opportunities to expand their manufacturing footprint in the country.

In order to boost imports and exports, Indonesia has recently amended its corresponding regulations. However, all products are still subject to licenses.



2. Legal Environment and Competition Law

Indonesia generally welcomes foreign investments, but only on its own terms: government policies try to ensure that foreign companies work together with locals in order to develop and upskill Indonesian companies (e.g. minimum local shareholding percentage). Law No. 25 of 2007 is the key law governing foreign direct and indirect investments. There are various industries listed which are closed or only open to investments under certain conditions. In 2014, further modifications of the Negative Investment List came into force under the Presidential Regulation No. 39/2014, however, the changes did not liberalise but rather tighten restrictions on foreign investments. Later that year, the new President Joko Widodo came into power, driving a pro-investment approach. Subsequently two years later, the Presidential Regulation No.44/2016 regulating restricted sectors for investments was published. The regulation is considered more liberal and protective towards foreigners.

There are still prohibitions and restrictions for foreign investors in many sectors (for more details, please refer to section 8 of this report), however, in the permitted sectors, foreign investors can generally own up to 100% of a company.

Indonesia's law only distinguishes between Indonesian and foreign companies and does not outline special laws for Mainland China or Hong Kong companies.

Indonesia's Negative Investment List Contains Three Categories of Closed or Restricted Businesses (Presidential Regulation No.44/2016):^{1,2,3}



List 1

List of Business Fields that are Closed to Investment

Examples:

- Alcoholic beverage industry;
- Various areas of the industrial chemical industry; and
- Public museums.



List 2

List of Business Fields that are Open with Conditions: Reserved for or in Partnership with Micro, Small, and Medium-sized Enterprises (SMEs) and Cooperatives

Examples:

- Manufacture of jewellery articles of precious metal (reserved for partnerships);
- Retail sales through mail order and internet (reserved for SMEs); and
- Internet cafés (reserved for SMEs).



List 3

List of Business Fields that are Open Under Specific Conditions

Examples:

- Cargo land and domestic sea transportation (foreign capital ownership: max. 49%);
- Freight forwarding services (foreign capital ownership: max. 67%); and
- Trade sector: retail business for electronics, jewellery, textiles, cosmetics and food and beverage (100% domestic capital required).

I. Types of Legal Business Entities Available for Foreign Investment^{1,4}

There are different structures to expand a business or a manufacturing footprint as an investor from Mainland China or Hong Kong to Indonesia. Law No. 25 of 2007 governs capital investments and classifies a business as foreign even if just 1% is foreign-owned. When considering to expand the manufacturing footprint to Indonesia, an investor has to define what kind of activities the company should carry out. If the business generates revenues, the legal entity needed is a limited liability company (Perseroan Terbatas Penanaman Modal Asing, PT PMA). In order to explore opportunities without conducting commercial activities, an investor from Mainland China or Hong Kong would usually choose a representative office. If an investor wants to do business in a foreign-restricted area, a specific arrangement with a local partner might be required.

The three main forms of doing business or expanding the manufacturing footprint to Indonesia are:

1. Foreign-owned Limited Liability Company (PT PMA)
2. Representative Offices
 - Foreign Representative Office
 - Foreign Trade Representative Office
 - Foreign Construction Service Representative Office
3. Local company under nominee arrangement

In addition to these three business types, it is possible to set up entities such as a public company or a permanent establishment. However, these types are not as common and therefore will not be discussed in detail. Also, in some cases it is required to set up a joint venture with a local partner, yet the joint venture would most likely be incorporated as a limited liability company and therefore will not be elaborated further.

Limited Liability Company (PT PMA)^{4,5,6,7}

PT PMAs allow investors from Mainland China and Hong Kong to conduct sales activities and generate revenues and profits. PT PMAs can be 100% foreign-owned, however, there are many sectors that are restricted for foreign investors as they are carried out by the government or local companies only (for further information, please refer to section 8 of this report). PT PMAs are separate legal entities, which means that the Mainland China or Hong Kong business of an investor would not be impacted or liable for the company incorporated in Indonesia. A PT PMA requires a minimum of two shareholders that can either be organisations or individuals. The shareholders can receive payments or dividends as well as exercise various other rights listed under the Company Law 40/2007. In addition, a board of directors and a board of commissioners are needed, where at least one Mainland China or Hong Kong national is required. A PT PMA has to submit Investment Activity Progress Reports to the Indonesian Investment Coordinating Board (Badan Koordinasi Penanaman Modal, BKPM) periodically. Also, an employment report (Mandatory Manpower Report) has to be submitted to the Ministry of Manpower annually.

A foreigner who wants to expand a business to Indonesia as a PT PMA requires a minimum capital of IDR 10 billion (around USD 707,000) with a minimum paid-up capital of IDR 2.5 billion (around USD 177,000). For capital intensive industries, the paid-up capital can be higher. Indonesia sets the minimum capital requirements comparatively high in order to attract larger investments.

Registration Process for a PT PMA

The registration process is generally streamlined, however, under the Regulation No. 13 of 2017, investors in certain sectors have to obtain an Investment Registration (e.g. in the sectors associated with energy and infrastructure management). Companies that require an Investment Registration have to apply for it before preparing and submitting the Deed of Establishment as illustrated in the establishment process below (third step). The entire establishment process usually takes between 10 to 12 weeks.

2. Legal Environment and Competition Law

The establishment process for a PT PMA can be summarised into eight steps:



Representative Office (RO)^{4,6,9,10}

The RO is the easiest and fastest way for Mainland China or Hong Kong companies to establish a presence in Indonesia. It is the typical structure an investor would choose to get to know the market, collect information on investment opportunities or to promote export of goods and services. An RO is not allowed to engage in direct commercial or revenue generating activities, however, if the findings are promising, the investor can transform the RO into a limited liability company.

There are three different types of ROs in Indonesia: 1) Foreign Representative Office, 2) Foreign Trade Representative Office, and 3) Foreign Construction Services Representative Office.

Foreign Representative Office

As opposed to the PT PMA, the representative office of a foreign company (Kantor Perwakilan Perusahaan Asing) does not require capital investment. In addition, Mainland China or Hong Kong companies have 100% control over this entity. However, this type cannot be set up in all sectors and it can only be established if a parent company already exists abroad. The license to run a foreign RO is valid for three years and can be extended without limitations. Geographically, a foreign RO can only be established in the capital of an Indonesian province. A foreign RO has to submit an activity report to BKPM every six months.

Foreign Trade Representative Office

A Mainland China or Hong Kong company that wants to establish presence in Indonesia in the form of a manufacturing agent, selling agent or buying agent, could consider setting up a foreign trade representative office (Kantor Perwakilan Perusahaan Perdagangan Asing). This type can perform various business supporting functions, such as quality control, market research, the promotion of goods manufactured by the parent company abroad or the corresponding import to local companies in Indonesia. However, a foreign trade RO is restricted from conducting sales and trading. As opposed to the foreign RO, the foreign trade RO does not have geographic restrictions and can therefore be set up anywhere in the country, incorporated into an office building. In order to establish this type, a specific license (Surat Izin Usaha Perwakilan Perusahaan Perdagangan Asing) to perform activities related to trading has to be submitted to the BKPM. The permission is valid for one year and can only be renewed for a three-year period.

Foreign Construction Service Representative Office

Investors from Mainland China or Hong Kong that are engaged in construction activities have the option to set up a foreign construction service representative office (Badan Usaha Jasa Konstruksi Asing). The purpose of this type is to prepare and develop activities of future investments in Indonesia. According to the New Construction Law (Law No.2 of 2017), it is only allowed to be involved in construction projects that are either 1) complex, 2) at high-risk, or 3) hi-tech related. There are certain obligations that a company has to fulfil in order to run this business type: among others, it has to form a joint venture with a local limited liability construction company. This means that this business type is considered as an equivalent to a limited liability company that engages in the construction services. The validity is three years and may be extended.

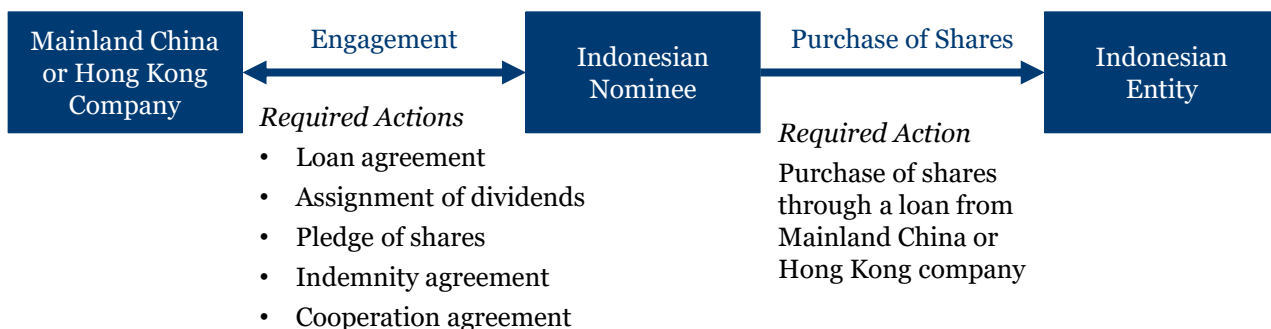
Registration Process for Representative Office

A foreign company that wants to set up a representative office in Indonesia needs to submit the Application Form for the Establishment of a Representative Office in Indonesia, together with other documents, such as a letter of appointment or the Articles of Association of the parent company. The establishment process usually takes between six to 12 weeks.

Local Company Under Nominee Arrangement¹¹

A nominee arrangement is a setup where a company from Mainland China or Hong Kong uses a local Indonesian nominee as the registered shareholder on behalf of the real (Mainland China or Hong Kong) owner. As such, the company can be registered as an Indonesian limited liability company, while the foreign company can hold control. Investors often use this arrangement if the sector is restricted for foreigners or if the minimum required capital of IDR 10 billion for foreign investment is too high. It is also commonly used by entrepreneurs with time sensitive contracts, as the establishment process is easier than for foreign companies. However, under the Indonesian Investment Law, the owner of the shares who is stated in the Articles of Association is both, the beneficial and the legal owner. Therefore, it is important to have clear agreements with the local nominee shareholder as illustrated below. As such, the relations between the Mainland China or Hong Kong company and the Indonesian nominee are commercially governed by a loan agreement: the loan agreement states that the nominee is purchasing the shares in the company by using the loan provided by the Mainland China or Hong Kong company.

Concept and required agreements between a Mainland China or Hong Kong company with a local nominee:



II. Overview on Other Business Laws and Regulations

A. Legal and Administrative Framework on Competition Law^{12,13,14,15,16}

In 1999, Indonesia passed law No.5 of 1999 concerning the ban on monopolistic practices and unfair business competition. The law came into force in 2000 and covers a wide range of competition issues. The Indonesia Competition Commission (Komisi Pengawas Persaingan Usah, KPPU) is responsible for the enforcement of the law and can therefore initiate investigations, examinations and administrative sanctions. The House of Representative published draft amendments of the initial law in 2017. Thereafter, the government of Indonesia has released a list of inventory issues which proposes significant changes to the draft amendments. As of the beginning of 2019, the process of amending the Indonesian Competition Law has still been ongoing.

The law outlines general regulations and does not specify particular rules for Mainland China or Hong Kong businesses that want to expand their manufacturing footprint to Indonesia.

Some of the main areas covered by the law include:

1. Abuse of dominant position
2. Mergers and acquisitions control
3. Anti-competitive agreements

In addition, the law outlines exceptions and sets penalty levels for infringements.

1. Abuse of Dominant Position

A dominant position is a situation where a business does not have any significant competitor with regard to market share or financial capabilities.

Businesses are prohibited from taking advantage of their dominant market position in order to 1) hamper other businesses to become their competitors, 2) restrict the market and technology development, or 3) impose trade terms with the intention to prevent and/or hamper the consumers from acquiring competitive products.

According to the competition law, businesses are in a dominant market position, if:

- One business or a group of businesses controls 50% or more of the market share on one type of good or service; or
- Two or three businesses or groups of businesses control 75% or more of the market share on one type of certain good or service.

2. Mergers and Acquisitions Control

Mergers and acquisitions are also governed under law No.5 of 1999, however, further requirements and regulations are listed in law No.57 of 2010. The law prohibits business actors from merging and consolidating business entities or acquiring shares of companies if these actions may cause monopolistic practices and/or unfair business competition.

The Indonesian Competition Commission has to be notified within 30 days after the transaction has taken place, if the following thresholds are met:

- The value of the assets of the combined businesses exceeds IDR 2.5 trillion (around USD 176 million) or IDR 20 trillion for banks (around USD 1,411 million); or
- The sales turnover of the combined businesses exceeds IDR 5 trillion (around USD 353 million).

3. Anti-competitive Agreements

The law also deals with anti-competitive agreements to prevent monopolistic practices and/or unfair business competition, such as:

- Oligopoly: agreements between businesses to jointly control production or marketing of products;
- Price fixing: price-fixing agreements between competing business actors;
- Area distribution: contract between business competitors on marketing areas or market allocation of the goods and/or services.

Other areas covered are boycotting, cartels, trust or vertical integrations. For more details please refer to chapter III of law No.5 of 1999.

B. Intellectual Property Protection Law on Trademarks^{17,18,19}

A trademark is defined as any sign capable of being represented graphically in the form of drawings, logos, names, words, letters, numerals, colors arrangement, sounds or holograms or any combination thereof, which indicates that a certain good or service belongs to the owner of the trademark. Indonesia's overarching Intellectual Property regulation (including those on trademarks) is low compared to other countries (ranked 45th out of 50). The laws mentioned below apply in general and do not specify particular rules for Mainland China or Hong Kong companies considering to expand their manufacturing footprint to Indonesia.

The protection of trademarks is governed under the new law No.20 of 2016. Before that, a law from 2001 was in force. The new law includes various changes in order to improve the enforcement in practice: as such, it includes provisions designed to accelerate the examination process, it provides more clarity on preliminary injunctions and it increases criminal penalties. In 2018, Indonesia acceded to the Madrid Protocol on trademarks which simplifies the process for obtaining recognition of international trademarks. In Indonesia, the invalidation and cancellation process of a trademark is very complex and costly, therefore, it is recommended to track trademark publications in order to file oppositions if required. Once a trademark has been registered, the opposition proceedings need to be filed with the Court of Commerce, which has the reputation of being a very difficult process.

The application needs to be submitted to the Directorate General of Intellectual Property Rights. Online filing is possible, however, foreign applicants have to file the application via a local trademark agent. With the amendments of 2016, the registration process usually takes around eight months. A trademark registration is valid for 10 years and renewable for periods of 10 years.

Indonesia's government demonstrates commitment on improving the protection of trademarks, however, the effectiveness in practice has not yet been improved significantly.

C. Import/Export Regulations and Licenses^{20,21,22}

Indonesia is generally committed to trade liberalisation and has recently amended its import and export regulations. One major change to boost import and export is the shift from border to post-border supervision, which means that the supervision is not made by the Directorate General of Customs and Excise in the customs territory anymore. According to the Ministry of Finance, this arrangement is expected to support the domestic investment climate, reduce dwelling time and national logistics costs. Imports and exports are regulated under the amended Customs Law (2006).

Import

Mainland China and Hong Kong companies that want to import goods in Indonesia have to register with Indonesia's trade department to obtain a customs identification number (Nomor Identitas Kepabeanan, NIK) as well as an importer identification number (Angka Pengenal Import, API).

2. Legal Environment and Competition Law

In addition, it is required to obtain an import license. There are three different licenses:

1. API-U: general import license;
2. API-P: producer import license; and
3. API-T: limited import license that limits import to a particular industry and does not permit the importation of goods not related to that business sector.

As in most countries, an importer also has to file further documents, such as a bill of lading, a certificate of insurance, a packing list or a customs import declaration.

Goods prohibited or restricted from being imported include:

1. Prohibited: motorised vehicle tires, electric light bulbs, matches, certain types of textiles, fully assembled automobiles and motorcycles, radio and television sets, explosives, narcotics;
2. Restricted and subject to approval: fuel for vehicles, ships and aircraft.

Export

Exporting from Indonesia also requires Mainland China and Hong Kong companies to obtain a customs identification number. In addition, companies must already have a taxpayer identification number and one of the following business licenses: 1) Trade license from the Ministry of Trade; 2) Manufacturing license from the Ministry of Industry; 3) PT PMA license issued by the Investment Coordinating Board (BKPM); or 4) Exporter identification number.

Similar to the import regulations, an exporter has to file an export declaration form and submit it to the customs office together with further documents such as a bill of lading, insurance certificate, the packing list or the export permit.

Goods prohibited or restricted from being exported include:

1. Prohibited: some categories of rubber, scrap metal and antiques;
2. Restricted and subject to approval: textiles, plywood and coffee. In addition, certain basic commodities can only be exported if domestic demand has been met, such as flour, palm oil, sugar and petroleum.

D. Jurisdiction System on Business Related Matters^{23,24}

The Indonesian legal system is based on the Dutch colonial law and civil law. International laws are not directly applicable in the Indonesian legal environment and have to be enacted in domestic law in order to have effect. The court structure in Indonesia is divided into three tiers:

1. District courts or the first instance court in each regional area (Article 25, Law No. 48 of 2009 concerning Judicial Power) which are further split into different courts:

General courts hear criminal as well as civil cases. In addition, general courts have a separate chamber dealing with commercial disputes. This chamber has the power to hear cases around:

1. Bankruptcy and suspension of debt payment under Law no. 37 of 2004;
2. All intellectual property rights; and
3. Indonesia Deposit Insurance Corporation under Law No. 24 of 2004.

In addition, there are other courts (religious, military and administrative) dealing with specific cases;

2. The high courts and court of appeal: high courts function at provincial level and have the power to hear civil and criminal cases. In addition, they can hear appeals from the first instance courts, including the ones on commercial or business related matters;
3. The Supreme Court acts at national level and is the highest instance in the country. It oversees the lower instance courts and can hear appeals from the high courts.

Source:

- ¹ *Investing in Indonesia – Practical Law, Thomson Reuters 2019*
- ² *Investing in Indonesia, KPMG 2015*
- ³ *Presidential Regulation Number 44 of 2016, BKPM 2016*
- ⁴ *Doing Business in Indonesia 2018-2019, Mazars*
- ⁵ *Number 13 of 2017, Investment Coordinating Board of Republic of Indonesia*
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- ¹⁰ *Foreign Investment in Indonesia, Indonesia-Investments*
- ¹¹ *Using Nominee Shareholders in Indonesia the Safe Way, Emerhub 2018*
- ¹² *Number 5 of 1999, The Law of the Republic of Indonesia*
- ¹³ *Antitrust and Competition in Indonesia, Baker McKenzie*
- ¹⁴ *Cartel Regulation – Indonesia, Getting the Deal Through Jan 2019*
- ¹⁵ *Number 57 of 2010, Government Regulation of the Republic of Indonesia*
- ¹⁶ *Merger control in Indonesia: overview, Practical Law, Thomson Reuters 2019*
- ¹⁷ *Indonesia - Protecting Intellectual Property, export.gov 2019*
- ¹⁸ *Indonesia's New Trademark Law – An Overview of the Changes, Tilleke & Gibbins 2017*
- ¹⁹ *Indonesia – SMD County Index, SMD Group*
- ²⁰ *Shift to Post Border to Boost Export-Import, Ministry of Finance 2018*
- ²¹ *International trade in goods and services in Indonesia: overview, Thomson Reuters 2019*
- ²² *Import and Export Procedures in Indonesia – Best Practices, ASEAN Briefing 2018*
- ²³ *Legal systems in Indonesia: overview, Thomson Reuters 2019*
- ²⁴ *Litigation and enforcement in Indonesia: overview, Thomson Reuters 2019*

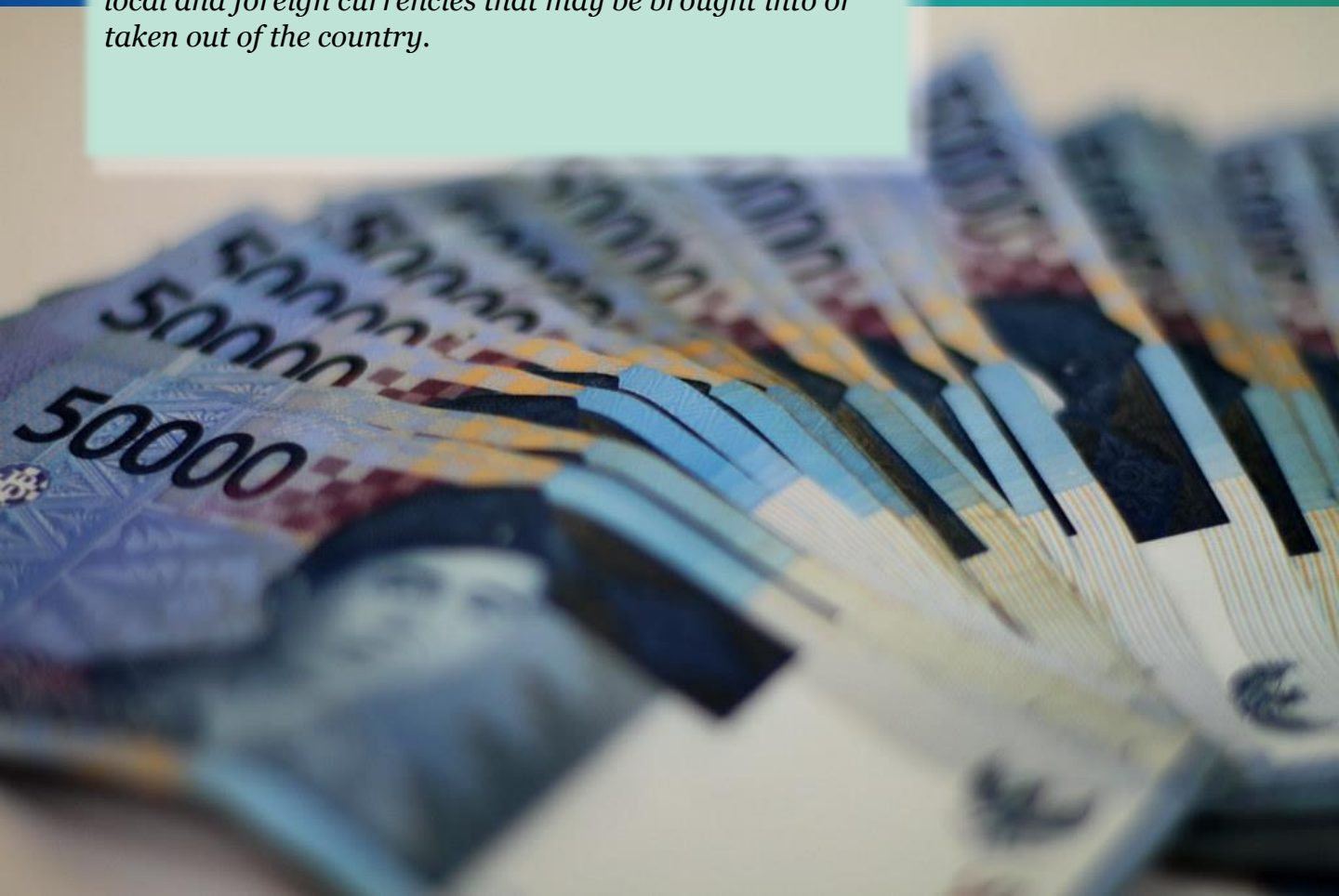
3. Taxation, Transfer Pricing, Banking and Currency Control

Executive Summary

The main forms of taxation for businesses are corporate income tax (CIT), value added tax (VAT), and luxury-goods sales tax (LST), among other specific business taxes.

Indonesia currently uses Indonesian Financial Accounting Standards (IFAS). The Indonesian Institute of Accountants (IAI) will maintain the current differences between International Financial Reporting Standards (IFRS) and the Indonesian Generally Accepted Accounting Principles (GAAP) for one year. Companies will need to use IFRS for their financial reporting in the future.

Indonesia adopts a managed float exchange rate regime by the Bank of Indonesia. Foreign direct investments (FDIs) are generally welcomed in Indonesia. However, there are restrictions on the amount of inbound and outbound of local and foreign currencies that may be brought into or taken out of the country.



3. Taxation, Transfer Pricing, Banking and Currency Control

I. Taxation Practice

Under Indonesia's Income Tax Law, a company is treated as a resident of Indonesia for tax purposes by virtue of having its incorporation or its domicile in Indonesia.

A foreign company carrying out business activities through a permanent establishment (PE) in Indonesia will generally be treated as a resident taxpayer for tax purposes. Resident taxpayers have to settle their tax liabilities either by direct payments, third party withholdings, or a combination of both.

Indonesian tax residents are taxed on their worldwide income.

A. Corporate Income Tax (CIT)¹

Tax Calculation

Taxable business profits in Indonesia are calculated from net profits on an accrual basis. This includes all revenues arising from/or in consequence of the business conducted during an accounting period (i.e. 12 months). Generally, all expenses incurred for the purpose of obtaining, collecting and maintaining taxable business profits are eligible for deduction.

Applicable Tax Rate

The standard CIT rate in Indonesia is 25%.

The rates vary depending on the types of taxable person. In particular, public companies and small enterprises enjoy certain tax benefits as shown in the following table.

Taxable Person	CIT Rate
Companies other than those listed below	25%
Listed companies with > 40% of shares traded on the Indonesian Stock Exchange	20%
Companies with an annual turnover below IDR 50 billion	12.5% on taxable income up to IDR 4.8 billion, and 25% on taxable income over IDR 4.8 billion
Companies with a gross turnover below IDR 4.8 billion (<i>Note</i>)	0.5%

Note: This regime (Government Regulation No.23 issued on 8 June 2018) only applies for a maximum period of three years for companies. Companies that obtain tax holiday or income tax allowance cannot benefit from the final tax regime.

3. Taxation, Transfer Pricing, Banking and Currency Control

Passive Income

Passive income (including interests, royalties and dividends) are subject to withholding tax in accordance to Article 23 and 26 (PPH 23/PPH 26):

Taxable Income	Type of Taxpayer	Withholding Tax Rate
Interests	Resident Corporation	15%
	Non-resident taxpayer	20%
Royalties	Resident Corporation	15%
	Non-resident taxpayer	20%
Dividends	Resident Corporation (<i>Note</i>)	0%
	Resident Corporation – standard	15%
	Non-resident taxpayer	20%

Note: Dividends received from an Indonesian company by a limited liability company incorporated in Indonesia (Perseroan Terbatas, PT), a cooperative, or a state owned company, are exempt from income tax if the below two conditions are met:

- *The dividends are paid out of retained earnings; and*
- *For PTs and state-owned companies, the company earning the dividends holds at least 25% of the paid-in capital in the company distributing the dividends.*

If the conditions are not met, the dividends are assessable to the company earning the dividends at the ordinary tax rate together with the company's other income.

Deductible Expenses^{1,2}

Some of the key CIT deductible expenses for the manufacturing industry include:

- **Financing cost:** regulation PMK-169 stipulates that a single debt to equity ratio of 4:1 to obtain full deductibility of financing costs (i.e. the amount of debt allowable is limited to four times the equity amount); and
- **Depreciation:** must be based on historical cost of an asset acquired. Assets with beneficial life of more than one year are categorised and depreciated from the month of acquisition either through straight-line or declining-balance method. The rates for each category and method are shown in the table below.

3. Taxation, Transfer Pricing, Banking and Currency Control

Asset Type (Note)	Depreciation	
	Straight-line	Declining-balance
Category 1 (Assets with a beneficial life of 4 years): Assets example including: computers, printers, scanners, furniture, office equipment, furniture and equipment constructed of wood/rattan, equipment for the semiconductor industry, etc.	25%	50%
Category 2 (Assets with a beneficial life of 8 years): Assets example including: heavy vehicles for transportation, warehousing, and communications, telecommunications equipment, equipment for the semiconductor industry, tools for cellular telecommunication services, etc.	12.5%	25%
Category 3 (Assets with a beneficial life of 16 years): Assets example including: machines for textile, heavy equipment, docks and vessels, etc.	6.25%	12.5%
Category 4 (Assets with a beneficial life of 20 years): Assets example including: heavy construction machinery, locomotives, railway coaches, heavy vessels, docks, etc.	5%	10%
Building Category	5% On assets in the permanent building category with a useful life of 20 years	N/A
	10% On assets in the non-permanent building category with a useful life of 10 years	

Note: More comprehensive lists of the assets included in each category are set out in Ministry of Finance (MoF) regulations.

Losses and Consolidation

Tax losses can be carried forward for a maximum of five years to deduct against future profits. There is no claw-back provision. Each company is taxed independently, without any form of group relief or relief by consolidation.

3. Taxation, Transfer Pricing, Banking and Currency Control

Tax Governance

The Directorate General of Taxes (Direktorat Jenderal Pajak, DJP) is the main agency responsible for formulating and implementing taxation policies. The DJP operates under the Ministry of Finance. For more information regarding the DJP, please refer to the Ministry of Finance official website (www.kemenkeu.go.id).

Tax Filing¹

Indonesia operates a self-assessment based tax system. Thus each legal entity is obliged to self-assess, settle and submit a CIT return on a regular basis (monthly and annually):

Type of Tax	Monthly Payment Deadline	Monthly Filing Deadline	Annual Filing Deadline
CIT	15 th of the following month	20 th of the following month	End of the 4 th month after the tax year end
Employee or Other Withholding Tax	15 th of the following month	20 th of the following month	N/A
Value Added Tax (VAT) and Luxury-goods Sales Tax (LST)	Before the VAT return filing deadline	End of the following month	N/A

Double Taxation Agreement (DTA) with Hong Kong³

Indonesia has entered into a DTA with Hong Kong, which has been in effect since 28 March 2012.

The table below illustrates the various tax rates applicable to the different sources of income as detailed in the Indonesia/Hong Kong DTA:

Category		Rate
Dividends	Portfolio	10%
	Substantial Holdings	5%
Interest		10% or 0% (<i>Note</i>)
Royalties		5%
Technical Fees		5%

Note: Interests derived from certain government bodies are exempt from tax.

B. Value Added Tax (VAT), and Luxury-goods Sales Tax (LST)¹

Value added tax (VAT) is applicable to all goods and services used for production, trading, and consumption in Indonesia. Imported goods are subject to VAT, and VAT must be paid at the time of delivery of taxable goods or services.

VAT Filing and Payments

In Indonesia, VAT collection is based on the accrual principle, whereby VAT must be collected at the time of delivery of taxable goods or services, i.e. when the risk and ownership of goods have been transferred and that the income can be reliably measured or estimated (regardless of whether the transaction has been paid for or not).

Companies are required to file VAT returns on a monthly basis, with payment and filing due no later than the last day of the month following the taxable delivery.

VAT Rates

VAT is calculated as output VAT minus input VAT.

Taxable Business Activities	Tax Rate
<ul style="list-style-type: none"> • Standard rate 	10% (Note 1)
<ul style="list-style-type: none"> • Services connected to movable goods utilised outside of the Customs Area comprising: <ul style="list-style-type: none"> ○ Freight forwarding services on export-oriented goods; ○ Toll manufacturing services; and ○ Repair and maintenance services. • Services connected to immovable goods located outside of the customs area in the form of consultation services for construction • Other services where the output is utilised outside of the customs area and utilisation is based on a request from an overseas recipient. These services are to comprise: <ul style="list-style-type: none"> ○ Technology and information services (include computer system analysis services, computer system design services, IT security services, contact centre services); ○ Inter-connection, satellites and/or data connectivity services; ○ Research and development services; ○ The rental of transportation equipment (airplanes and ships) for international flight or shipping activities; ○ Trading services which assist in finding domestic sellers to procure goods for export purposes; and ○ Certain consultation services, among others accounting services, financial audit services, tax services. 	0% (Note 2)

Note 1: The VAT law allows the government to change the VAT rate between a range of 5% to 15%. However, since the enactment of the VAT law in 1984, the government has never changed the VAT rate. Please refer to Ministry of Finance (MoF) for updated specified tax rates.

Note 2: The 0% VAT refers to 0% VAT on output VAT, but these goods are still eligible for input VAT credits.

Luxury-goods Sales Tax (LST)

Some goods such as motor vehicles and luxury residences, in addition to VAT, are subject to LST upon import or delivery by the manufacturer to another party at rates currently ranging from 10% to 125%.

C. Transfer Pricing Provisions⁴

In Indonesia, transactions between related parties must be consistent with the arm's length principle. If the arm's length principle was found not to be applied, the DJP has the authority to recalculate the taxable income or deductible costs.

For companies aiming to expand their manufacturing footprint to Indonesia, it is advised to keep a record of the specific transfer pricing documentation. Under the General Tax Provisions and Procedures (Ketentuan Umum dan Tata Cara Perpajakan, KUP) Law, the government may request specific transfer pricing documentation to prove the related party transactions and the arm's length nature of the transaction. These documents may also be requested during tax audits by the Indonesian Tax Office (ITO).

Major points of the required transfer pricing disclosures include:

- Nature and value of transactions with related parties;
- Transfer pricing methods applied to those transactions and rationale for selecting such methods; and
- Whether the company has prepared transfer pricing documentation.

The tax law also allows the DJP to enter into Advance Pricing Agreement (APAs) with taxpayers and/or another country's tax authority on the future application of the arm's length principle on the same/similar transactions. Once agreed, an APA will typically be valid for a maximum of three tax years.

D. Statutory Auditing Requirements and Accounting Standards⁴

Audit Requirements

All juristic business entities must prepare financial statements each year. The financial statements must be audited by an independent certified auditor, and thereafter submitted to the Revenue Department and the Commercial Registrar each accounting year.

Five types of limited liability companies (publicly listed companies, banks and financial institutions, companies issuing debt, state-owned companies and companies with assets of at least IDR 50 billion) must publish audited financial statements that have been approved by the general meeting of shareholders. Annual reports should be prepared in accordance with generally accepted accounting principles in Indonesia.

Accounting Standards

The standard-setting body in Indonesia is the Financial Accounting Standards Board (Dewan Standar Akuntansi Keuangan, DSAK) under the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia, IAI). Indonesia's approach to International Financial Reporting Standards (IFRS) adoption is to maintain its national Generally Accepted Accounting Principles (Indonesian Financial Accounting Standards, IFAS) and minimise the differences between IFRSs and IFASs gradually.

IAI has committed to maintaining the existing differences between IFRS and Indonesian GAAP for only one year so far. As a result, new standards issued by International Accounting Standards Board (IASB) should be adopted by businesses in Indonesia within one year.

Under Indonesian law, both public and private companies must comply with accounting standards issued by the DSAK-IAI.

II. Banking & Currency Control

A. Bank Account Setup Requirements and Restrictions for Foreign Direct Investment (FDI)⁵

Banking Account Setup Requirements

Both locally and foreign incorporated companies can open business bank accounts in Indonesia. There are mainly three types of accounts commonly used: checking accounts, savings accounts and deposit accounts.

Technically, there are no limitations on the types of business accounts foreign companies can open, but in practice, companies which have a foreign shareholder are required to maintain a bank account with a bank that is licensed to handle foreign currencies (known as Foreign-Exchange Banks or Bank Devisa). However, the process, requirements and strictness for a company to open a bank account differ between different banks.

General Requirements for All Limited Companies

In Indonesia, businesses with any % of foreign ownership are considered foreign companies. This means that, as long as a company has foreign shareholders, it is considered a foreign-owned company. Most foreign companies in Indonesia are PT PMAs (Perseroan Terbatas Penanaman Modal Asing) which stands for a limited liability company with foreign direct investment. Local companies are known as PT (Perseroan Terbatas).

Most banks require the PT/PT PMAs registration to be completed in order to set up a bank account. Once the registration is completed, additional documents are also required by the bank for the process:

#	Documents to be Provided when Opening a Bank Account for Limited Companies (<i>Note</i>)
1	Tax Identification Number (Nomor Pokok Wajib Pajak, NPWP)
2	Business License issued by the Investment Coordinating Board (Badan Koordinasi Penanaman Modal, BKPM) or Regional Investment Coordinating Board (Badan Koordinasi Penanaman Modal Daerah, BKPMDD)
3	Company Registration Certificate (Tanda Daftar Perusahaan, TDP)
4	Deed of Establishment (Akta Pendirian)
5	Identity documents of authorised person(s) such as ID/passport/permits

Note: The documents described are for reference only as requirements vary between commercial banks. It is advised to check with the desired commercial bank on the exact documents required before visiting the bank.

B. Restrictions on Inbound and Outbound Funding in Foreign Currency and Local Currency⁶

Foreign Currency

Inbound

Starting in 2018, Bank Indonesia only allow banks and licensed money changers to bring in foreign bank notes worth more than IDR 1 billion, or equivalent. If an individual carries the equivalent of more than IDR 1 billion into Indonesia, customs will have the power to confiscate the money. In addition, authorities also require cash worth more than IDR 100 million to be declared when arriving in Indonesia.

Outbound

Similar to the inbound of foreign currency, outbound amount exceeding IDR 1 billion, or equivalent, are prohibited. In addition, authorities also require cash worth more than equivalent of IDR 100 million to be declared when departing Indonesia.

Declaration Requirement

Any person bringing in/taking out of Indonesia an amount exceeding the equivalent of IDR 100 million in foreign currency is required to declare such funds at Customs.

Local Currency

Inbound

The maximum limit of IDR that can be brought in to Indonesia without authorisation is IDR 100 million. Amount more than that must be declared.

Outbound

Similar to the inbound of local currency, the maximum limit of IDR that can be brought from Indonesia to other countries without authorisation is also IDR 100 million. Amount more than that must be declared.

Declaration Requirement

Any person bringing in/taking out of Indonesia an amount exceeding IDR 100 million is required to obtain an approval from Bank Indonesia or External Affairs.

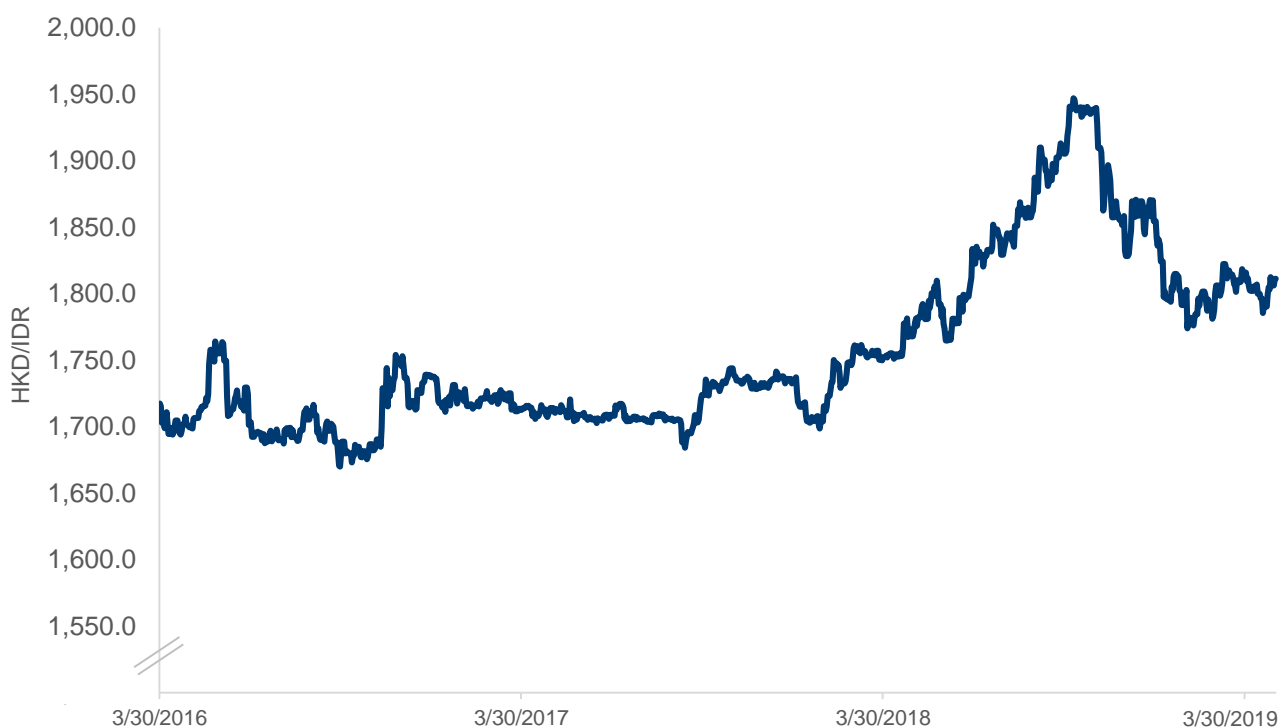
C. Policy on Foreign Exchange Rate and Three-year Historic Trend

Policy on Foreign Exchange Rate

A managed float exchange rate regime is adopted by Indonesia. Bank Indonesia adopts the inflation targeting framework, in which inflation is the primary monetary policy objective, while adhering to the free floating exchange rate system. Instead of just pegging the exchange rate to a particular level, Bank Indonesia also operates an exchange rate policy designed to minimise excessive rate volatility.

In order to keep inflation at the government prescribed level, Bank Indonesia also holds power to conduct monetary policy through the establishment of monetary targets (such as money supply or interest rates).

Three-year Exchange Rate Trend for HKD to IDR⁷













Date	HKD/IDR Rate
30/03/2016	1,707.62
30/03/2017	1,714.86
30/03/2018	1,749.17
30/03/2019	1,814.37

D. List of Banks from Foreign Investments^{8,9}

Bank Indonesia's main functions include: regulatory and supervisory authority for the banking and payment systems, and monetary functions. On the other hand, the Indonesian Financial Services Authority (Otoritas Jasa Keuangan, OJK) acts as the supervisory body for financial institutions (which includes Indonesian banks and domestic branch offices of foreign banks) further to Law No. 21 of 2011.

For companies intending to expand their manufacturing footprint into Indonesia, there are in total 116 banks in Indonesia which 104 are conventional commercial banks and 12 are Sharia Commercial Banks.

List of Selected Foreign Banks¹⁰

Foreign Banks	
	Bangkok Bank PCL
	Bank Of America, National Association
	Bank Of China Limited
	Citibank, N.A.
	Deutsche Bank AG.
	Industrial Commercial Bank of China
	JPMorgan Chase Bank, National Association
	PT Bank HSBC Indonesia
	Standard Chartered Bank
	The Bank of Tokyo-Mitsubishi UFJ Ltd.
	The Royal Bank of Scotland N.V.

For a full list of all banks in Indonesia, please refer to the latest OJK's Indonesia Banking Directory (ojk.go.id/en/kanal/perbankan/data-dan-statistik/Direktori-Perbankan-Indonesia-Baru/Documents/INDONESIA%20BANKING%20DIRECTORY%202017%20BUKU%20I.pdf)

3. Taxation, Transfer Pricing, Banking and Currency Control

Source:

¹ *Indonesian Pocket Tax Book 2019, PricewaterhouseCoopers*

² *Indonesia Tax Summary, PricewaterhouseCoopers*

³ *Comprehensive Double Taxation Agreement – Vietnam, Inland Revenue Department of the Government of the Hong Kong Special Administrative Region*

⁴ *Indonesia: Business Environment, Nordea*

⁵ *Opening a bank account in Indonesia, Cekindo*

⁶ *Indonesia Customs, Currency & Airport Tax regulations details, IATA*

⁷ *Bloomberg*

⁸ *Regulation and Monitoring, OJK*

⁹ *Financial System Stability, Bank of Indonesia*

¹⁰ *Indonesia Banking Directory 2017, OJK*

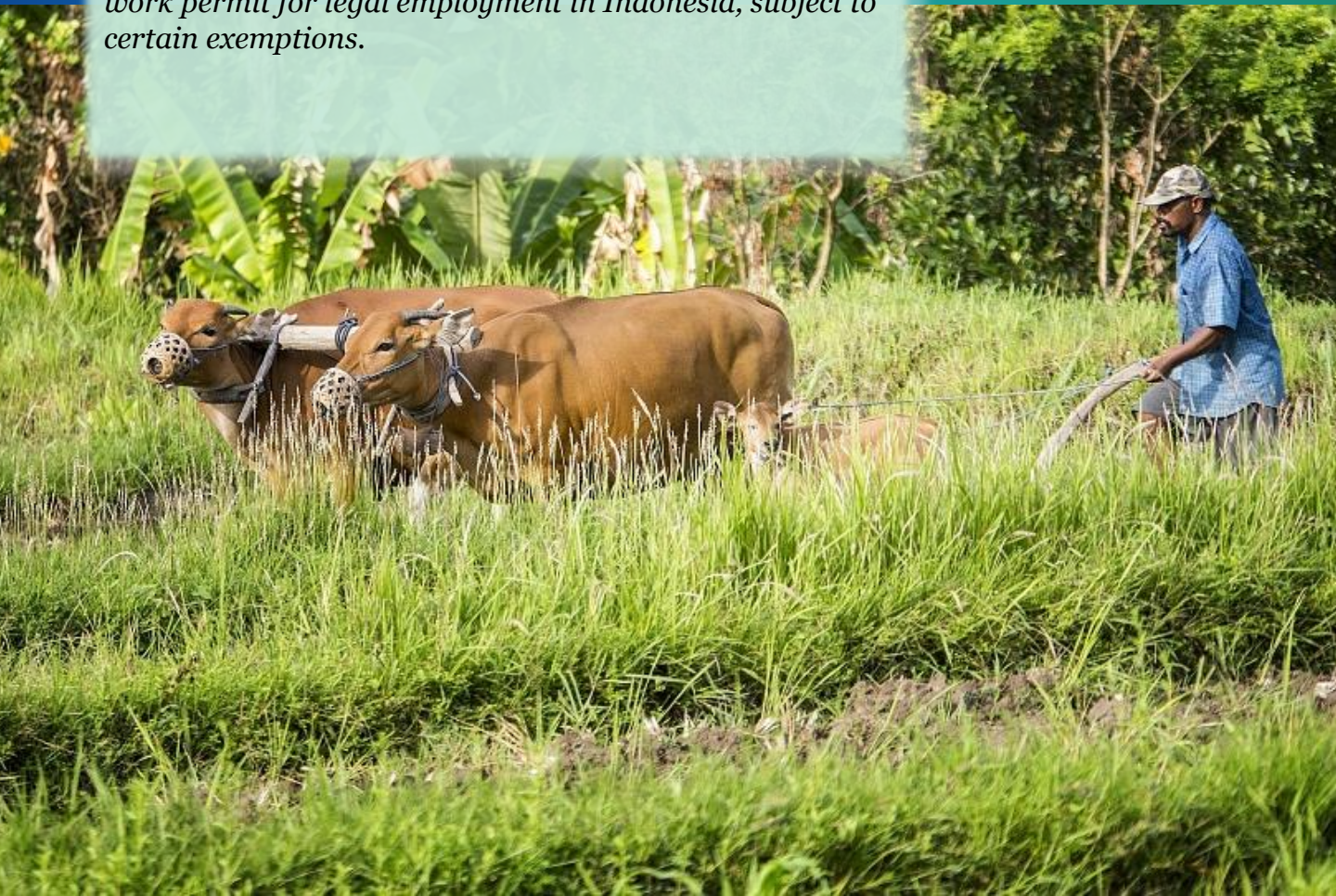
4. Labour, Compensation Rule and Labour Supply Situation

Executive Summary

Indonesia has established labour laws providing guidance such as maximum working hours, minimum wages and welfare to protect employees. Moreover, workers' religious rights are well protected in Indonesia.

Despite the abundance of labour supply in the country, skilled labour is still scarce. In recent years, the Indonesian government has made efforts to promote vocational education in order to train a skilled workforce, but the impact is yet to be seen.

With the aim to foster knowledge and technology transfer, in Indonesia, foreign workers can only be employed under fixed-term contracts. In addition, foreign workers are prohibited from assuming certain top positions in the companies. Foreign workers are also required to obtain a work permit for legal employment in Indonesia, subject to certain exemptions.



4. Labour, Compensation Rule and Labour Supply Situation

I. *Overview on Laws and Regulations of Local Labour Employment*

A. **Contracts and Protection Towards Employees^{1,2,3,4,5}**

The Indonesian employment conditions are set out in the Labour Law (Law No. 13 of 2003), the Industrial Relations Dispute Settlement Law (Law No. 2 of 2004), the Labour Union Law (Law No. 21 of 2000), and other relevant regulations.

In general, these laws and regulations apply equally to both Indonesian and foreign employees.

Minimum Legal Working Age

The minimum age for employment is 15 under normal working conditions and 18 under hazardous working conditions, such as operating dangerous machinery or equipment (e.g. knitting and weaving machines, boilers and lifts) and handling harmful chemicals.

Children between 13 and 15 can be employed to perform light work. However, they cannot work more than three hours a day and at night. In addition, a written permission from their parents is needed to employ them.

Labour Contract

In Indonesia, employment can be contracted in writing or verbally for permanent positions. However, a fixed-term contract must be in writing or it will be considered as a permanent contract. To avoid legal disputes, it is best to have a labour contract in place for any employment relationship.

All written labour contracts should be in Bahasa Indonesia; in case of bilingual contracts, the Indonesian version prevails in construing the contract.

There are two types of labour contracts in Indonesia:

- Permanent contracts: contracts without an expiration date and applicable to any job position; and
- Fixed-term contracts: contracts with a maximum term of two years, and can be renewed for up to two years. They can be used for seasonal jobs or jobs which will be completed in a certain period of time (not exceeding three years), e.g. seasonal workers in garment industry and workers working on research and development of a new product.

Probationary Period

New permanent workers can be subject to a probationary period for no longer than three months. During the probationary period, workers shall be paid at least at minimum wage. However, fixed-term workers cannot be subject to probation.

Apprenticeship

The minimum age of apprenticeship in Indonesia is 18. Children aged 14 or above can join apprenticeship only as a part of their school's curriculum or government-approved training programmes.

4. Labour, Compensation Rule and Labour Supply Situation

Outsourced Recruitment

Outsourced recruitment is only allowed for workers engaging in non-core business activities such as janitors, security guards, etc.

Salary Payment

The salary must be denominated and paid in IDR for both Indonesian and foreign employees. Cash payment must constitute at least 75% of the wages paid, the remainder can be paid in the form of housing, transport and/or food allowance.

Enterprise Rules and Regulations

Companies with at least 10 employees (and no collective labour agreements) must establish written enterprise rules and regulations to define the rights and obligations of employers and employees, the working environment, the grounds of disciplinary actions and code of conduct.

If applicable, the employer must consult with the company's labour union when writing the rules and obtain the endorsement of the Ministry of Manpower (MOM) or an appointed official. The enterprise rules and regulations are valid for a maximum of two years and must be renewed when expired.

Termination of Employment

In general, employment termination must be mutually agreed between employers and employees, except for retirement of employees, expiration of fixed-term contracts and or voluntary resignation by employees.

Although unilateral dismissal of employees by employers is permitted, employers are required to 1) negotiate with employees and/or trade unions to avoid termination and 2) if the negotiation fails, obtain a termination permission from the Industrial Relations Dispute Settlement Institution (RDSI).

Valid and Invalid Grounds for Unilateral Termination by Employers

The law describes some usual valid and invalid grounds for unilateral termination. However, the final decision of whether a termination is allowed is subject to the RDSI's discretion.

Valid Grounds for Termination	Invalid Grounds for Termination
Disciplinary violations of enterprise's rules and regulations and/or collective labour agreements.	Absence from work due to mandatory religious services.
Organisational restructuring, e.g. merger, change of ownership etc.	Participation in trade union activities or serving as a management member in a trade union.
Closure of business or bankruptcy.	Marital status and/or pregnancy.
Absence from work for 5 consecutive working days or more written explanation and without responding to employer's written summon twice.	Absence from work due to illness for a period of up to 12 consecutive months, with doctor's certificate.

4. Labour, Compensation Rule and Labour Supply Situation

Severance Payment and Long Service Award

Permanent employees laid off by employers must be compensated with severance payments and (if applicable) long service awards. For employees who resigned, the eligibility of both payments depends on the enterprise's rules and regulations.

Fixed-term employees are not entitled to severance payment. If fixed-term labour contract is terminated by either employer or employee before the expiration, the terminating party must compensate the other party by the amount equal to employee's salary for the remaining periods of employment.

The following tables stipulate the legal entitlement of severance payment and long service award.

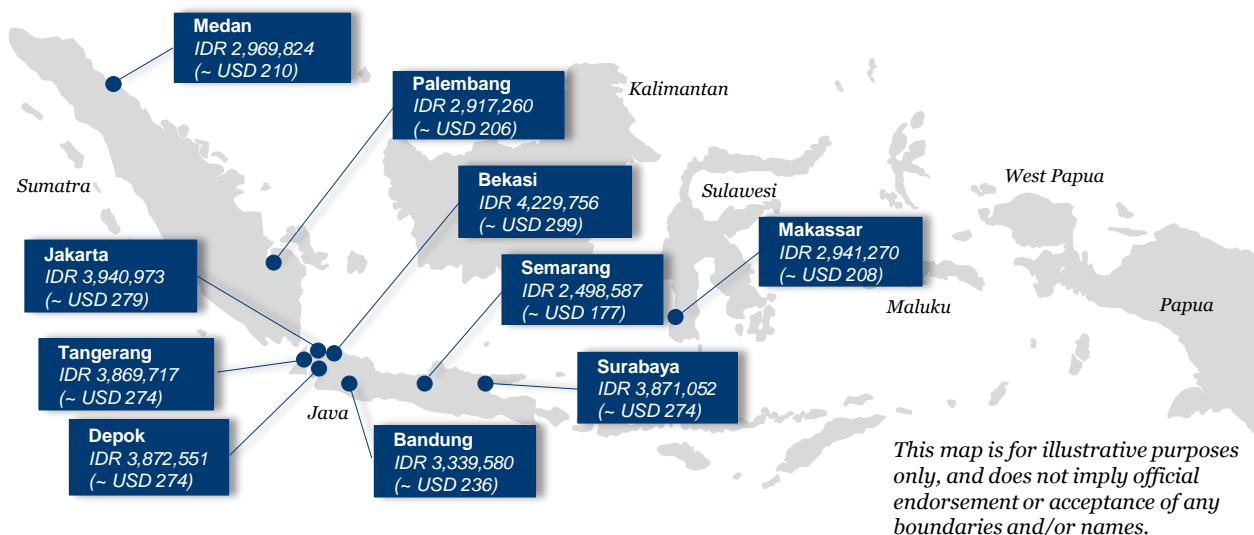
Severance Payment	
Tenure of Service (x)	Entitlement (No. of month of salary)
Less than 1 year	1
1 year \leq x < 2 years	2
2 years \leq x < 3 years	3
3 years \leq x < 4 years	4
4 years \leq x < 5 years	5
5 years \leq x < 6 years	6
6 years \leq x < 7 years	7
7 years \leq x < 8 years	8
8 years or more	9

Long Service Award	
Tenure of Service (x)	Entitlement (No. of month of salary)
3 years \leq x < 6 years	2
6 years \leq x < 9 years	3
9 years \leq x < 12 years	4
12 years \leq x < 15 years	5
15 years \leq x < 18 years	6
18 years \leq x < 21 years	7
21 years \leq x < 24 years	8
24 years or more	10

4. Labour, Compensation Rule and Labour Supply Situation

B. Minimum Wage Level⁶

In Indonesia, the minimum wage is reviewed every year based on the previous year minimum wage, the country's economic growth and inflation (Government Regulation Number 78 of 2015). In addition, the minimum wage varies across regencies and cities. The map below highlights the monthly minimum wage in the top 10 most populated cities in Indonesia.



C. Maximum Working Hours and Days²

The maximum number of standard working hours is 40 hours per week:

- For five-day workweek: maximum of eight working hours daily;
- For six-day workweek: maximum of seven working hours daily.

Employees are entitled to at least 30 minutes rest break for every four hours of continuous work.

Overtime

Employers must obtain a written consent from employees to make them work overtime.

Overtime is limited to three hours per day or 14 hours per week. This restriction does not apply to overtime performed on a weekly rest day or a public holiday. If employers need their workers to work beyond the overtime limit, they are required to obtain approval from the Department of Manpower and Transmigration. In this case, the employer is also required to provide food and drinks to workers.

Except for managerial roles, employers must compensate workers for overtime work as follows:

$$\text{Overtime Pay} = \text{Overtime Rate (refer to the following table)} \times \text{Monthly Wage [includes salary and fixed allowance]} \times 1/173$$

4. Labour, Compensation Rule and Labour Supply Situation

The table below shows the overtime rate corresponding to different conditions:

Type of Workweek	Working Day of Overtime Work	Number of Overtime Hours	Overtime Rate
All	Weekday	First hour	1.5x
		Subsequent hours	2x
5-day workweek	Weekly rest day/ public holiday	First 8 hours	2x
		9 th hour	3x
		10 th – 11 th hour	4x
6-day workweek	Weekly rest day/ public holiday on normal working day	First 5 or 7 hours (<i>Note</i>)	2x
		Subsequent hour	3x
		Last hour	4x

Note: An employee is subject to a overtime rate of 2x for the first five hours if overtime work happens on the shortest working day.

D. Mandatory Welfare^{1,2,3,4,6}

All local and foreign employees who work in Indonesia for more than six months must be enrolled in the social and healthcare security programmes and must be registered with the Badan Penyelenggara Jaminan Sosial (BPJS).

National Social Security Programme

The BPJS Ketenagakerjaan covers work accident protection, death insurance, old age saving and pension.

- Work accident protection includes medical services and cash compensation for the insured worker.
- Death insurance provides lump sum cash compensation, education scholarship for the insured worker's heirs and covers funeral expense if he passed away due to reason other than work accidents.
- Old age saving is a lump sum retirement benefit.
- Pension provides stable income to the insured worker after retirement.

National Healthcare Security Programme

The BPJS Kesehatan covers medical services (e.g. medical check-ups, outpatient and inpatient services) for the insured workers, his spouse and legitimate children (up to five) who are under 21 (or 25 for those who are still under full-time education).

Contribution Basis

The contribution base for social and healthcare security is the insured worker's monthly wages (base salary and other fixed allowances). The following table summarises the contribution basis and contribution percentage for employees and employers under social and healthcare security programmes.

4. Labour, Compensation Rule and Labour Supply Situation

Security Programme	Covered Areas	Max Contribution Cap (Note 1)	Employee Contribution	Employer Contribution
National Social Security	Work accident protection	No cap	0%	0.24% - 1.74% (Note 2)
	Death insurance		0%	0.3%
	Old age saving		2%	3.7%
	Pension		IDR 8,512,400	1%
National Healthcare Security		IDR 8,000,000	1%	4%

Note 1: The max contribution cap for pension and healthcare are valid as of May 2019 but subject to regular review by BPJS. For updated contribution cap, please refer to the official website of BPJS (www.bpjs-kesehatan.go.id/bpjs/home)

Note 2: The contribution rate for work accident protection varies depending on the risk rating of a company. In general, companies involved in sewing products are taxed at 0.24%, companies involved in toy manufacturing are taxed at 0.54%, companies involved in footwear, t-shirt, sock and knitting products are taxed at 1.27%.

Other Statutory Rights of Employees

Other statutory and benefits for employees in Indonesia include:

- **Holiday entitlement:** from the second year of employment, all employees are entitled to 12 days of paid leaves per year. In addition, there are around 10 public holidays every year;
- **Sick leave:** all employees are entitled to paid sick leaves without limit if they have a medical certificate. For the first four months, employees should be paid 100% of their monthly wage, 75% from the fifth to the eighth month, 50% from the ninth to the 12th month and 25% afterwards;
- **Maternity rights:** female workers are entitled to 90 days of maternity leave before labour and another 90 days after childbirth. They receive 100% of their monthly wage during the leave and their medical expense are reimbursed;
- **Religious holiday allowance:** from the second month of employment, all workers receive one month's wage as religious holiday allowance for every 12 months' continuous employment. If they work for less than 12 months, they can receive the prorated amount of the allowance. The allowance is given seven days before the most important religious celebration of the worker's religion, e.g. Idul Fitri for Muslims, Christmas for Christian and Catholics, Vesak for Buddhists and Chinese New Year for Confucians. However, it is common practice to pay the allowance to all workers before Idul Fitri; and
- **Other statutory leaves:** the Labour Law permits paid leaves for various personal commitments, including marriage and bereavement etc.

Besides the abovementioned statutory rights, an employer must ensure occupational safety and hygiene (e.g. provision of toilets in accordance with the number of workers, provision of personal protective equipment at no cost etc.). Companies with 100 workers or above are required to establish and apply an occupational safety and health management system, which includes various risk management policies, employee's roles and responsibilities and implementation details.

4. Labour, Compensation Rule and Labour Supply Situation

E. Labour Law Governing Authorities, Enforcements, and Restrictions^{2,6,8,9,10,11}

Governing Authorities

- The Ministry of Manpower (MOM): the MOM is the government body which formulates labour legislations and implements national labour policies in Indonesia.
- Badan Penyelenggara Jaminan Sosial (BPJS): the BPJS is responsible for social security policies development, harmonisation of social security programmes implementation, and social security funds monitoring. There are two independent bodies under the BPJS, namely BPJS Ketenagakerjaan and BPJS Kesehatan, which are respectively responsible for managing social security and healthcare security programmes.

Labour Law Enforcements

- Labour Law enforcement is mainly dealt by the subordinating directorates of the MOM, e.g. the Directorate General of Labour Inspection, the Directorate of Working Conditions Inspection, the Directorate of Occupational Safety and Health Inspection and the Directorate of Law Enforcement on Labour Inspection. The main roles of these directorates are to enforce the country's labour laws through formulating standards and guidelines, compliance inspections and provision of evaluation services.
- The Industrial Relation Court hears and issues decisions on employment-related complaints. If the litigant parties are not satisfied with the outcome, they can submit an appeal to the Supreme Court.

Restrictions on Foreign Employment

In Indonesia, foreign workers must be employed under fixed-term contract. In addition, they are prohibited from assuming certain positions listed in the Decree No. 40 of 2012, e.g. CEO (*Note*), positions related to human resources, occupational safety specialists etc.

Moreover, in order to develop a local Indonesian expertise, companies hiring foreign employees must comply with strict requirements. For example, at least one Indonesian worker must be employed for every foreign employee hired in order to facilitate technology and knowledge transfer.

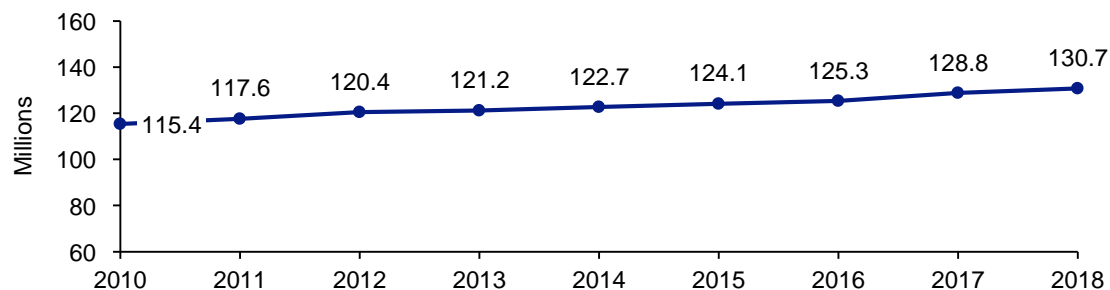
Foreign workers are in general forbidden by law to be employed by more than one employer in Indonesia. Only foreign workers working as non-shareholder directors or commissioners, working in vocational training, digital economy or the oil and gas sector are exempt from this rule.

Note: Under the Indonesian Company Law, the chief officer of a company is "President Director" while "CEO" of a company has no legal meaning. The MOM clarified that President Director, together with the Board of Directors and senior officers, are still open to foreign nationals.

II. Local Labour Supply Market Condition

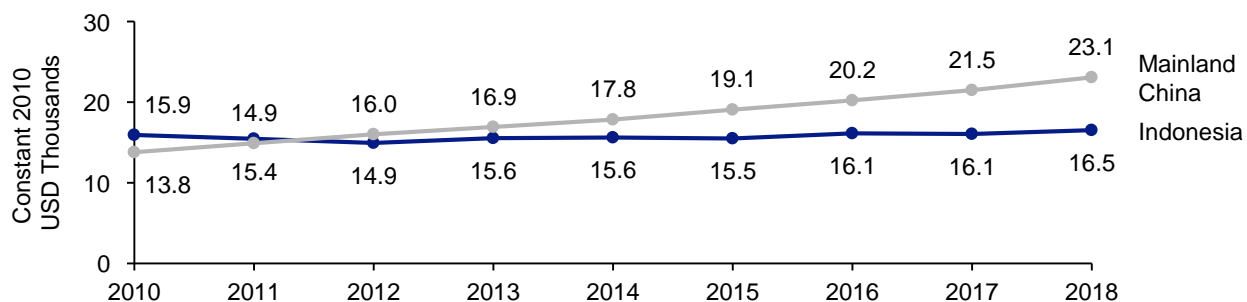
A. Supply Situation for Total Labour Force^{12,13}

Indonesia Total Labour Force (2010 – 2018)



The estimated total labour force was around 130.7 million in 2018. The supply of labour has been steadily increasing since 2010. As of August 2017, 48% of the employed population was employed in the service sector, followed by 31% in the agricultural sector and 21% in the manufacturing and construction sector. Since 2010, the labour force has been shifting from working in the agricultural sector to the services, manufacturing and construction sectors. The ratio of population working in the manufacturing and construction sector increased by 3% from 2010.

Indonesia Industry Labour Productivity (value added per worker) (Note) (2010 – 2018)

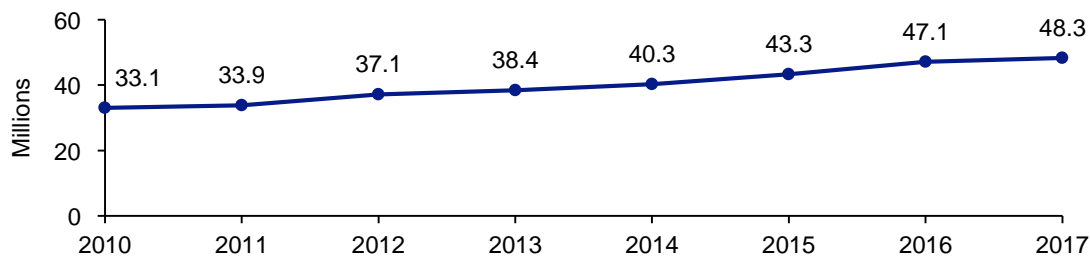


Mainland China's industry labour productivity grew at a higher rate (around 6.6%) than Indonesia's (around 0.5%) between 2010-2018. Indonesia's industry labour productivity was around 29% lower than Mainland China's in 2018. The country's productivity ranks fifth among the ASEAN countries, behind Brunei, Singapore, Malaysia and Thailand.

Note: Industry labour productivity measures the value added per worker in manufacturing, construction, mining and quarrying and public utility sectors.

B. Supply of Educated Employees

Estimated Employed Population with Higher Education in Indonesia (2010 – 2017)¹⁴



The estimated employed population with higher education (defined as employed population who completed high school and beyond) was around 48.3 million in 2017, approximately 38% of the total employed population. However, only around 12% of the total employed population went through tertiary education, which is still relatively low.

4. Labour, Compensation Rule and Labour Supply Situation

C. Government Support on Employee Training^{15,16,17,18}

In order to enhance Indonesian workers' skills and competencies, the government develops the Roadmap on Development of Education and Vocational Training 2017 – 2025 (Roadmap). It focuses on establishing policy frameworks targeted at vocational education training (VET). The Roadmap also identifies six VET priority areas: manufacturing (i.e food & beverage, textiles, automotive and electronics), digital economy (i.e. e-commerce) and healthcare.

In the Roadmap, VET institutes are categorised into three types, each of which satisfies different training needs:

- Vocational and pre-professional high schools (SMK): provide education for operating level workers in line with industry 4.0;
- Polytechnic institutions (POLITEKNIK): provide education for workers with white collar jobs; and
- Community training centres (BLK): provide trainings for workers who want to acquire skills within a short period of time and require upskilling and reskilling due to automation and economic crisis.

Moreover, the country also implemented a pilot National Apprenticeship Programme in DKI Jakarta and its surrounding areas between 2017 and 2019. The programme aims to alleviate skills mismatch and promote the transition from school to work by apprenticeship, and will be replicated in other provinces if it succeeds in improving the employment outcome of vocational training.

The Indonesian government also incentivises manufacturing companies to invest in employees' trainings. The government will provide 200% tax relief over the next five years for initial investments in vocational education. For example, if a manufacturing company cooperates and works with vocational high schools to provide trainings or apprenticeship activities at a cost of IDR 1 billion, the company will be entitled to deduct IDR 2 billion from its taxable income over the next five years.

D. Labour Unionisation and Related Government Regulations^{1,2,6}

The Labour Law, the Labour Unions Law, and the Industrial Relations Dispute Settlement Law regulate all the activities of trade unions in Indonesia. All employees are free to form trade unions if there are at least 10 members in a union. However, a worker can only join one union in a company/factory.

All trade unions must register with the local government agency designated by the MOM. By law, registered trade unions are granted the rights to negotiate and enter into collective labour agreements, resolve industrial disputes and strikes.

- Union fee: trade unions shall manage their own budget and collect the union fee directly or indirectly from their members. Indirect collection of union fees (i.e. deduction from workers' wages by employers) needs written consent from the union members. The list of consent members must be provided to the employer.
- Federations and confederations: trade unions can form and join union federations, which consist of at least five trade unions. Union federations can form and join confederations, which consist of at least three federations.
- Bipartite Cooperation Body (BCB): companies with at least 50 employees must form a BCB with at least three worker representatives and three employer representatives and register the BCB with the local labour agency. The BCB serves as a forum for bilateral communications between the employer and employees. Both parties must meet at least once a month and the minutes of their meetings must be submitted to the local labour agency.

4. Labour, Compensation Rule and Labour Supply Situation

- **Collective Labour Agreements (CLAs):** a company can only have one CLA which applies to all employees. The terms of the CLA must be at least as favourable as the law, otherwise those less favourable conditions will be null and void, and the legal requirements will supersede. The CLA must be written in Bahasa Indonesian, signed by both the employers and the trade union representatives, and registered with the MOM. It is valid for a maximum of two years with a possible one year extension. After, re-negotiations must be undertaken.
- **Strike:** workers have the right to strike in Indonesia, but it should be a last resort to settle labour disputes. Thus strikes should only occur when 1) the employer fails twice within a 14-day period to respond to the trade union's written request to negotiate or 2) employers and employees cannot reach a consensus during negotiations. Workers are required to give a seven-day written notice to the employer and the local labour office with all the details of the strikes. The notice shall be signed by trade union or by workers' representatives.

E. Work Permits and Visa^{1,19,20,21,22}

Work Permits

The MOM issued new regulations in late 2018 to update requirements and procedure to hire foreign workers. Work permit is not a single document but a set of two (i.e. RPTKA and Notification) in Indonesia. Employers can apply for the required documents online at the TKA Online system (www.tka-online.kemnaker.go.id/). The requirements for obtaining the Indonesian work permit are as follows:

- **Foreign manpower utilisation plan (RPTKA):** Employers must obtain the MOM's approval for their RPTKA, which sets out information such as the number of foreign employees to be hired by the company. The RPTKA's validity is supposed to be equal to the foreign employee's term of employment, however, in practice the MOM decides unilaterally the validity length of the RPTKA;
- **Notification:** employers must also obtain from the Directorate General a document called "Notification" which grants companies the right to hire a foreign employee. Like the RPTKA, the Notification is supposed to remain valid during the entire foreign worker's employment period, but usually its validity is decided by the MOM;
- **Compensation for the Use of Foreign Manpower (DKP-TKA):** when both the RPTAK and the Notification are approved/obtained, employers are required to pay the DKP-TKA. Companies need to pay USD 100 per month for each position held by a foreign employee.

However, if the foreign employee is a director or a commissioner and owns shares in the company, his employment is exempt from being included in the RPTKA, and the company is not required to obtain the "Notification" or pay the DKP-TKA.

Visas

Foreign employees must hold a valid visa to legally stay and/or work in Indonesia. The common types of visas held by foreign employees are provided as follows:

- **Limited Stay Visa (Visa Tinggal Terbatas, VITAS):** After the issuance of the RPTKA, Notification and settlement of DKP-TKA, the employer should apply for a VITAS on behalf of its foreign employee with the Directorate General of Immigration. The foreign employee will obtain the VITAS from an Indonesian embassy or consulate in his country. The VITAS's validity is the same as the Notification, subject to the maximum stay of two years;

4. Labour, Compensation Rule and Labour Supply Situation

- Limited Stay Permit (Izin Tinggal Terbatas, ITAS): ITAS can be applied concurrently with VITAS. ITAS has a maximum validity of two years and is renewable for an additional of four years at most. ITAS shall be issued as a sticker to the foreign employee's passport at the immigration inspection gate;
- Business Visa: there are multiple entry and single entry Business Visas. Holders are allowed to stay in the country for a maximum of 60 days. A business visa should suffice if the foreign employee holds a position of director or commissioner, does not reside in Indonesia, and visit the country only for business purposes. However, it is advised to consult the labour authorities in advance for this situation.

Travelling to Indonesia

Hong Kong residents are permitted to stay up to 30 days in Indonesia without a visa.

F. Religious and Cultural Concerns or Considerations^{23,24,25}

Religion

Indonesia is the world's largest Muslim country with more than 85% of its population declared Muslim. Indonesian labour laws require employers to respect the workers' religion and protect their rights to honour their religious obligations. For example, employers must provide adequate opportunity for workers to pray (e.g. usually 5 times a day for Muslims) and allow employees to be absent from work due to religious rituals. Workers are also entitled to an annual religious holiday with a cash allowance.

Despite the religious freedom protection stated in the Constitution, studies indicate that religious intolerance towards minorities (e.g. Ahmadis) has been growing in Indonesia. For example, in 2017, an Indonesian NGO, the Setara Institute, reported that acts of religious intolerance increased from 236 acts to 270 between 2015 and 2016. Thus employers should pay extra attention in handling potential conflicts among their Indonesian workers.

Culture

Indonesia experienced a period of anti-Chinese riots before 1990s. Although in recent year ethnic Chinese have been better embraced by the Indonesian society, they are still experiencing discrimination and prejudices. For example, there were months of racially charged demonstrations in 2017 against Purnama, former Jakarta's governor, who is ethnic Chinese. Ethnic Chinese business owners should carefully assess the impact of the anti-Chinese sentiment when they consider business expansion to Indonesia.

In establishing business relationships, personal relationships are key to a successful deal in Indonesia and the level of closeness with Indonesian professionals may take precedence over the offer.

4. Labour, Compensation Rule and Labour Supply Situation

Source:

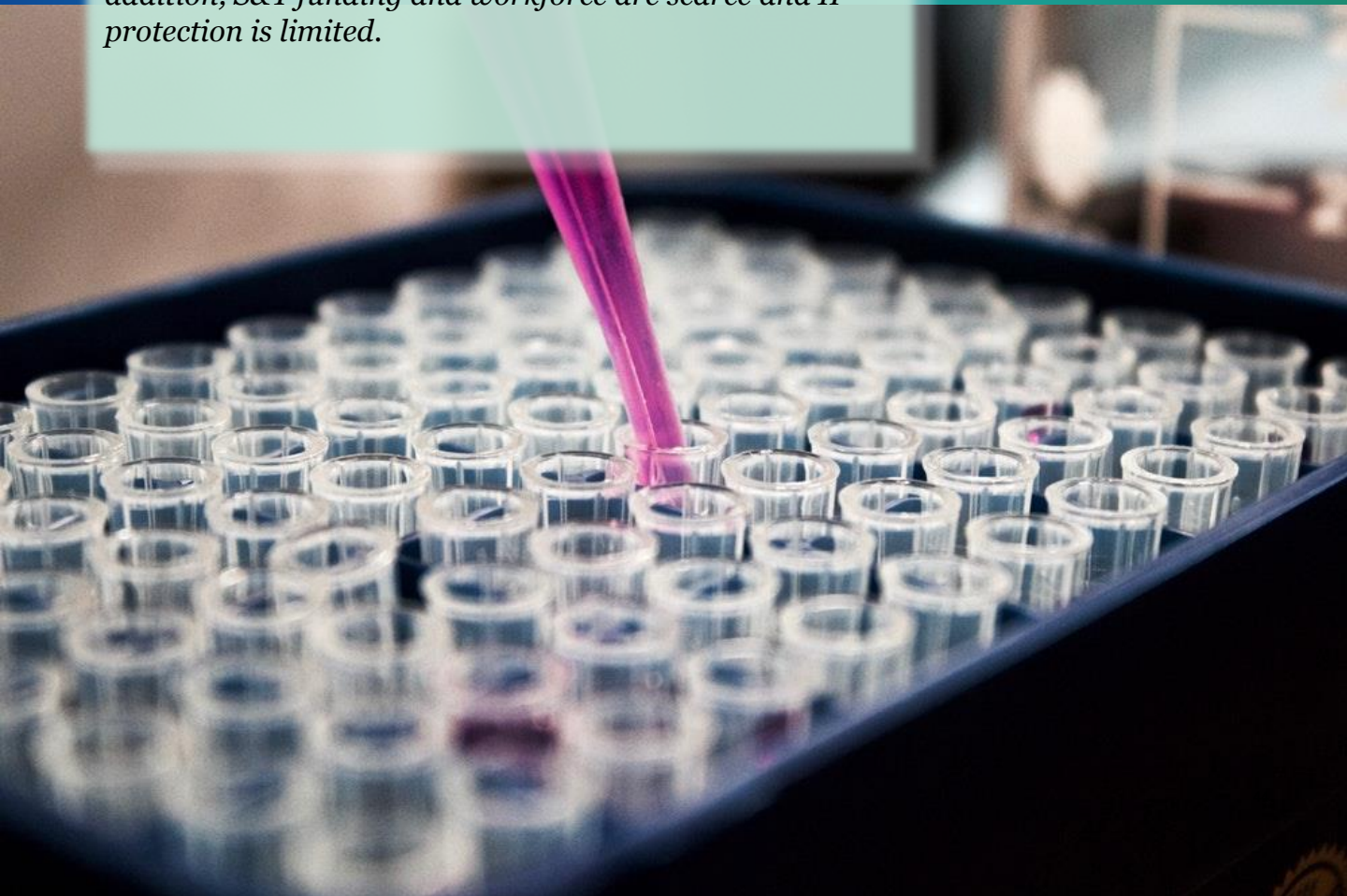
- ¹ *Indonesia Labour Laws 2019, PersolKelly*
- ² *Labour Law Guideline Indonesia, BetterWork Indonesia*
- ³ *Doing business in Indonesia 2018 - 2019, Mazars*
- ⁴ *Doing business in Indonesia, PwC and HSBC Commercial Banking*
- ⁵ *Doing business in Indonesia: overview, Thomson Reuters Practical Law*
- ⁶ *Indonesia: Employment & Labour Law 2019, Global Legal Group*
- ⁷ *Minimum Wage – Indonesia, WageIndicator.org*
- ⁸ *Labour Inspection Structure and organization - Indonesia, International Labour Organisation (ILO)*
- ⁹ *OECD Development Pathways Social Protection System Review of Indonesia, OECD*
- ¹⁰ *The Effect of Decree 40: Foreigners Are Banned from the Human Resources Arena in Indonesia, SSEK Indonesian Legal Consultants*
- ¹¹ *Indonesia: Indonesian Employment Law Update: Permits For Foreign Workers, SSEK Indonesian Legal Consultants*
- ¹² *Total Labour Force (Indonesia), The World Bank*
- ¹³ *Industry (including construction), value added per worker (constant 2010 US\$), The World Bank*
- ¹⁴ *Population 15 Years of Age and Over Who Worked During the Previous Week by Main Employment Status and Main Industry, 2008 – 2017, Statistics Indonesia*
- ¹⁵ *Implication of Changing Forms of Employment and New Business Models on Industrial Relations in Indonesia, Coordinating Ministry for Economic Affairs*
- ¹⁶ *Piloting National Apprenticeship Programme in Indonesia, ILO*
- ¹⁷ *Indonesia Incentivizes Industry with Super Deductible Tax, the Insider Stories*
- ¹⁸ *Indonesia continues to improve skills development through industry - vocational education and training partnership, ILO*
- ¹⁹ *New regime for hiring foreign employees, International Law Office (content by the Makarim & Taira S)*
- ²⁰ *Indonesia: Indonesian Employment Law Update: Permits For Foreign Workers, SSEK Indonesian Legal Consultants*
- ²¹ *New Manpower Regulations on Foreign Workers, Brigitta I. Rahayoe & Partners*
- ²² *Visa-free access or visa-on-arrival for HKSAR Passport, Hong Kong Immigration Department*
- ²³ *Religious Intolerance in Indonesia, Congressional Research Service*
- ²⁴ *The Chinese Indonesians with long memories and escape plans in case racial violence flares again – despite signs of tensions easing, South China Morning Post*
- ²⁵ *The Cultural Atlas, IES (2019)*

5. Research and Development Environment

Executive Summary

Indonesia is implementing the Masterplan for Acceleration and Expansion of Indonesia Economic Development to guide the country's development over the 2011 - 2025 period. One of the three main objectives of this plan is to strengthen science and technology (S&T) by improving S&T infrastructure, training a skilled workforce, supporting value-adding industries and increasing intellectual property (IP) protection.

However, the development of the country's S&T ecosystem is currently facing major hurdles. The government is behind schedule on its target of building 100 Science Techno Parks, universities' research and development (R&D) has a low impact and the private sector involvement is limited due to the lack of targeted incentives. In addition, S&T funding and workforce are scarce and IP protection is limited.



5. Research and Development Environment

I. The Science and Technology (S&T) in Indonesia

Indonesia's 2025 Vision is to “transform the country into a developed nation, through high, inclusive, and sustainable economic growth”. In order to do so, the government designed a masterplan to frame Indonesia's economic development. In this plan, one of the key levers is S&T.

A. Policy and Trends in S&T¹

Indonesia's government is implementing the Masterplan for Acceleration and Expansion of Indonesia Economic Development (MP3EI) from 2011 to 2025. The plan details three main strategies that should allow the country to reach the 2025 Vision, one of which is focused on strengthening Science and Technology.

Main Strategies of the MP3EI



**Economic Potential
Development through
Economic Corridors**



**Strengthening the
National Connectivity**



**Strengthening National
Human Resources
Capability and Science and
Technology**

S&T in the MP3EI

In the MP3EI, Indonesia identified S&T as a main driver of sustainable economic growth. The objective of the government is to increase the country's economic competitiveness through innovation. S&T development is therefore bound to support Indonesia in its transition from an industry-based to an innovation-driven economy. To realise the transition, Initiatives 1-747 of the MP3EI list out strategies and objectives to foster the S&T ecosystem. The main objectives are to:

- Improve S&T infrastructure to meet international standards (e.g. develop research and development (R&D) infrastructure and regional innovation clusters);
- Support S&T human resources (HR) development (e.g. improve quality and flexibility of HR, enhance researchers' remuneration);
- Improve industrial value-added products (e.g. support small and medium-sized enterprises and develop research funding in order to double exports for creative industry products); and
- Increase intellectual property rights protection (e.g. introduce incentive and regulation systems that support innovation).

This initiative will focus on promoting innovation in basic industries (i.e. food, energy, medicine, and water), in creative industries (i.e. information and communications technology) and strategic industries (i.e. defence and transportation). To fund the strategy, the government is aiming to have the S&T budget equal to 3% of the gross domestic product (GDP) by 2025.

Outlook^{2,3}

Despite this major policy, Indonesia still has limited S&T capabilities. According to the Global Competitiveness Report 2018, the country ranked 68th out of 140 countries on the innovation capability pillar, behind Malaysia (30th), Thailand (51st) and the Philippines (67th). The country's lowest scores were recorded in the R&D expenditure criteria (112th), patent application (99th) and trademark applications (97th). According to the latest data available (from 2013), Indonesia's R&D expenditures were less than 0.1% of its GDP. However, Indonesia was ranked high in the multi-stakeholder collaboration (25th) and state of cluster development (28th) criteria.

B. S&T Related Organisations

The Ministry of Research, Technology & Higher Education (Ristekdikti)⁴

The ministry is in charge of drafting and implementing policies related to S&T and higher education in order to achieve the objectives set out in the National Medium Term Development Plan (RPJM 2015-2019). The Ristekdikti vision is to improve higher education quality and to promote Science, Technology and Innovation (STI) to support Indonesia's economic competitiveness. To achieve this vision, the ministry has three major missions:

- Foster higher education quality, relevancy and access to train a qualified workforce;
- Improve STI capabilities to help industries upgrade their products; and
- Develop, oversee and regulate the S&T framework.

Another mission of the ministry is to coordinate private and public universities, and other national agencies working in the fields of nuclear energy (i.e. BAPETEN and BATAN), aeronautics (LAPAN), and standardisation (BSN). In addition, the ministry manages two important S&T agencies: the Indonesian Institute of Science (LIPI) and the Agency for the Assessment & Application of Technology (BPPT).

The Indonesia Institute of Science (Lembaga Ilmu Pengetahuan Indonesia, LIPI)⁵

The LIPI is a research institute that assists the government in organising the S&T and R&D ecosystems, and provides advice concerning S&T related policies. Its other missions are: to conduct R&D activities (through its multiple centres), develop the scientific community, encourage S&T consciousness among the population, and foster cooperation with national and international agencies. The institutes mainly focus on research in:



Advanced Materials



Energy and
Transportation



Innovation of
Technology



Technology,
Information and
Communications

Agency for the Assessment & Application of Technology (Badan Pengkajian dan Penerapan Teknologi, BPPT)⁶

The BPPT is a leading national research institution which focuses on innovation and technology to improve national public services and to increase Indonesia's economic competitiveness. The agency carries out research activities in four major fields:



Agro-industry and
Biotechnology



Information
Technology, Energy,
and Materials



Industrial
Technology Design
and Engineering



Natural Resources
Technology

II. The Infrastructure of Science and Technology

Indonesia tries to foster S&T collaboration between the government, universities, and private businesses. To do so, the country has adopted the Science Techno Park (STP) model which creates a centre of excellence where different stakeholders can exchange knowledge.

A. Government R&D Institutes and/or Funding Agencies^{7,8}

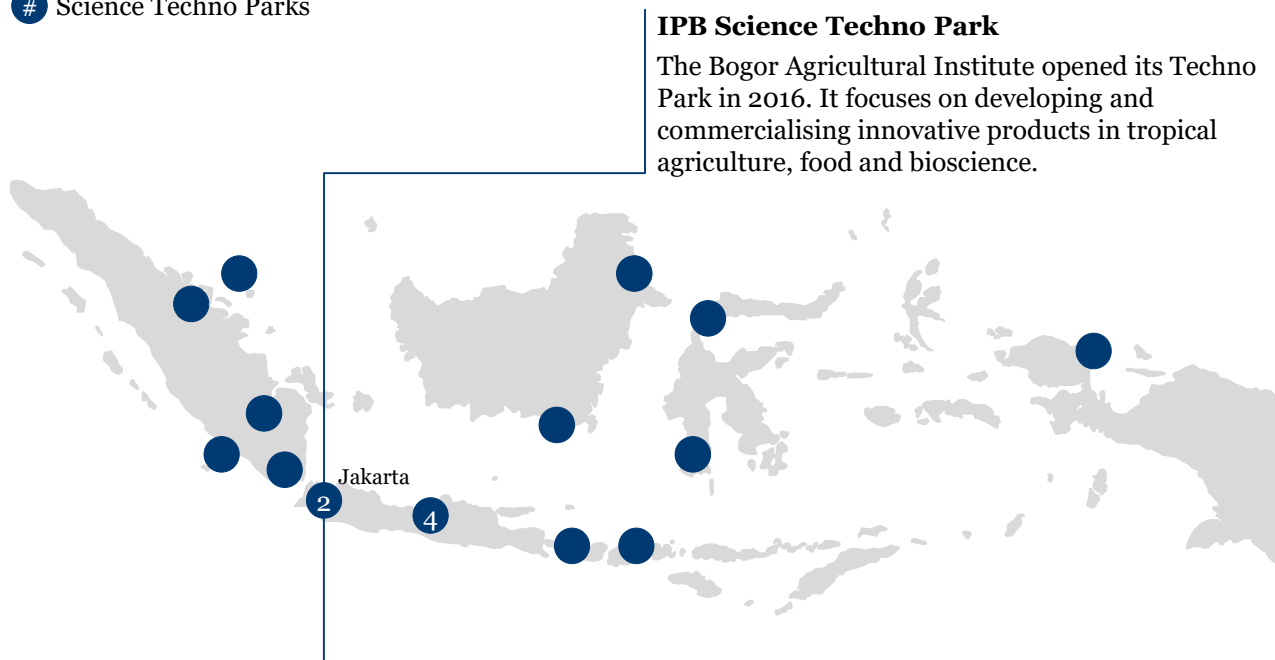
Between 2015 and 2019, one of the Indonesian government's priorities is to build 100 STPs to improve the country's productivity and competitiveness in fields such as agriculture, manufacturing or renewable energies. The STPs are research, development and innovation centres, incubators of new products and technologies, and collaboration spaces for government, universities and private businesses. Currently, there are 18 STPs with three others being developed in 2019. This figure is well below the target and is mainly due to the lack of scientists in the country involved in the programme.

For more information please visit the 100 Science Techno Park homepage (stp.ristekdikti.go.id/new/stp)

Location of Indonesia's Science Techno Parks

Number of STPs

● Science Techno Parks



IPB Science Techno Park

The Bogor Agricultural Institute opened its Techno Park in 2016. It focuses on developing and commercialising innovative products in tropical agriculture, food and bioscience.

PUSPIPTEK Science Techno Park

The revitalisation of the Park is a main objective stated in the MP3EI. The park needs to be a national-STP that functions as a centre for quality R&D activities and technological innovation.

The park currently hosts 49 R&D laboratories focusing on sectors such as manufacturing, industrial engineering, energy or biotechnology.

This map is for illustrative purposes only, and does not imply official endorsement or acceptance of any boundaries and/or names.

B. University-based R&D Institutes^{9,10}

Apart from the government, universities are important players in the R&D field. According to the 2019 QS Asia University Rankings, Indonesia has nine universities ranked in the top 300, indicating a low/moderate research and teaching quality. Typically, QS Institute ranks the top universities in Asia according to six criteria, among which the most important ones are academic reputation (assessing teaching and research quality) and citation per faculty (assessing importance of research outputs). The first Indonesian institution is ranked 57th, with two other institutions ranked in the top 100. The ranking implies that R&D carried out in Indonesian universities has quite a low impact in the S&T international scene.

University (ranking)	Research Fields in the University
Universitas Indonesia (57 th)	The University hosts a total of 14 faculties. They conduct research in fields including: <ul style="list-style-type: none"> • Computer Sciences • Engineering (e.g. industrial, mechanical or chemical) • Mathematics and Natural Sciences (e.g. biology, chemistry or physics) • Environmental Sciences
Bandung Institute of Technology (73 rd)	The University hosts 7 research centres, of which 5 are related to S&T: <ul style="list-style-type: none"> • Bioscience and Biotechnology • Cultural and Environmental Products • Nanoscience and Nanotechnology • Information and Communications Technology • New and Renewable Energy
Gadjah Mada University (74 th)	The University focuses on research areas that have been prioritised by the Indonesian government such as food security, energy, health, transportation, engineering, etc.

C. Private Business Firms (Research Centres)¹¹






Private sector participation in the Indonesian's R&D activities is still limited. In 2017, private companies invested around IDR 6 trillion (around USD 0.4 billion) which represented only 20% of the total R&D expenditure of the country. As a comparison, Thailand's private business participation in R&D is around 80%. This low figure can be explained by the lack of targeted incentives, relevant policies, and poor private sector awareness of the importance of R&D.

D. Infrastructure Availability for Foreign Investments

Attracting foreign investors for R&D does not appear to be a priority of the MP3EI. There is no specific R&D infrastructure availability for foreign investment highlighted by the ministries. For more details on infrastructure availability and foreign investments, please refer to sections 7, 8, and 9 of this report.

III. Priority Areas in Indonesia (major exports)^{12,13}

Indonesia's export and economy strongly rely on natural resources. In 2018, Indonesia's top five exports were:

Top Five Exports		% of Total Exports (in 2018)
	Mineral Fuels (including oil)	23.3%
	Animal or vegetable fats and oils	11.3%
	Electrical machinery (equipment and parts)	4.9%
	Vehicles (other than railway)	4.2%
	Rubber	3.5%

The majority of products exported from Indonesia are low-tech and do not require much Research and Development. The country is struggling to upgrade its exports from low to high-tech products. In 2018, hi-tech products (e.g. products with high R&D intensity, such as in aerospace, computers or pharmaceuticals), only represented around 6% of total manufactured exports compared to almost 30% in Vietnam or Malaysia.

IV. Funding for S&T and R&D

Government Funding^{14,15}

The Indonesian government is increasing its budget dedicated to R&D activities. In 2019, President Joko Widodo announced a total amount of R&D funding of IDR 26 trillion (around USD 1.8 billion) which represents around 0.16% of the country's GDP. This is the greatest amount allocated to R&D in Indonesia's history. Prior to this, the highest amount was only around 0.09% of the GDP.

The 2019 R&D budget is allocated to several ministries and national agencies to help them develop their research activities. Around 10% of this budget is destined for the Ristekdikti, which will then give out grants to universities.

Indonesia Science Fund (ISF)¹⁶

The ISF is the country's first independent research funding organisation. It was created in 2016 to provide multiyear grants, as previously, scientists had to rely on yearly grants that fluctuated according to the annual budget. The ISF awards competitive grants with a maximum amount of IDR 1.5 billion/year (around USD 100,000), for a maximum period of three years to Indonesian researchers. Some of the ISF focus areas including: 1) Materials and computational sciences; 2) Water, food and energy 3) Life, health and nutrition; and 4) Archipelago, marine and bio-resources.

V. Human Resources for S&T^{17,18,19,20}

S&T manpower development is one of the main missions of the MP3EI. Having a highly skilled workforce is important to strengthen the country's S&T capabilities and achieve greater economic competitiveness. As of 2019, Indonesia is lacking both researchers and an S&T trained workforce.

The number of researchers is estimated to be between 25,000 and 50,000 (or a ratio of 100 to 200 for every one million people), and a possible target would be to increase this figure by five times, and reach 250,000 researchers. Therefore, the country ranked among the lowest ASEAN countries on the criteria "Researchers, FTE/million population" of the 2019 Global Innovation Index. The country ranked 86th out of 126 countries worldwide.

In addition, the Ristekdikti has stated that the country will need a total of 113 million S&T skilled workers by 2030 to achieve a sustainable economic growth. This would require a doubling over the next 10 years of the current S&T skilled workforce, as Indonesia only had 55 million skilled workers in 2019. According to the ministry, the sectors requiring the most workers would be the manufacturing, infrastructure and agro-business industries. This would be a challenging mission for the country as out of all its tertiary graduates, only 19% graduate in science and engineering (*Note*).

Note: the figure represents the share of all tertiary-level graduates in natural sciences, mathematics, statistics, information and technology, manufacturing, engineering, and construction as a percentage of all tertiary-level graduates.

VI. Supports in Testing and Certification²¹

The Indonesian government does not provide specific support in testing and certification to S&T companies. However, the Ristekdikti manages the National Standardisation Agency of Indonesia (Badan Standardisasi Nasional, BSN), which can provide guidance on the needed certifications in the country. This agency is also involved in drafting national standards and in promoting international recognition of certification results and laboratory tests conducted in Indonesia.

VII. Intellectual Property Policy²²

Intellectual property (IP) rights are an important factor to consider when entering a country. Some countries have difficulties implementing a strong framework to protect IP rights which can cause serious damages to the companies. Each year the Global Innovation Policy Center publishes a worldwide ranking which analyses eight IP protection related topics: patents, copyrights, trademarks, trade secrets, commercialisation of IP assets, enforcement, systemic efficiency, membership and ratification of international treaties.

According to the 2019 IP Index published by the Global Innovation Policy Center, Indonesia's IP protection is very low. Globally, the country is ranked 45th out of 50 analysed countries. Regionally it is also underperforming when compared with other Asian countries. Overall, Indonesia scored 29%, which is below the Asian average of 52% (for reference, the top five world economies have an average of 92% on the index). Despite improvements over the years, substantial weaknesses still persist in Indonesia's IP protection:

- Lack of clarity around requirements and implementation of IP protection;
- Low participation in international IP treaties;
- High uncertainty for rights holders around implementation of technology transfer related IP;
- Important barriers affecting IP assets' licencing and commercialisation;
- Copyright environment is affected by high levels of piracy; and
- Biopharmaceutical patents do not conform to international standards.

Source:

- ¹ *Indonesia for Acceleration and Expansion of Indonesia Economic Development 2011-2015, ASEAN Briefing*
- ² *The Global Competitiveness Report 2018, World Economic Forum*
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- ⁴ *Ministry of Research, Technology and Higher Education homepage*
- ⁵ *International Science Council homepage*
- ⁶ *BPPT homepage*
- ⁷ *Indonesia Steps Up Science Techno Park Initiative To Support Local Innovators, Business Times, 2019*
- ⁸ *National Science & Technology Parks, Ristek Dikti, 2017*
- ⁹ *QS World University Rankings, QS Asia University Rankings 2019*
- ¹⁰ *Universitas Indonesia, Bandung Institute of Technology, Gadjah Mada University homepages*
- ¹¹ *Moving Indonesian research forward with more private sector support, The Conversation*
- ¹² *Trade Map, International Trade Centre*
- ¹³ *High-technology exports, The World Bank*
- ¹⁴ *Indonesia has relatively huge amount of R&D budget, Anatara News, 2019*
- ¹⁵ *It's not (just) about the money. How R&D funds are spent matters too, The Conversation, 2019*
- ¹⁶ *Indonesia Science Fund homepage*
- ¹⁷ *Breaking with the past, no more negligence in research, The Jakarta Post 2018*
- ¹⁸ *Youth science camp seeks to counter shortage of researchers in Indonesia, The Jakarta Post, 2017*
- ¹⁹ *Indonesia focuses on polytechnics amid staggering skills gap, The Jakarta Post, 2019*
- ²⁰ *Global Innovation Index 2019, INSEAD*
- ²¹ *Badan Standardisasi Nasional homepage*
- ²² *GIPC IP Index, Global IP Center, 2019*

6. Supply Chain Environment

Executive Summary

Indonesia's economy is heavily reliant on exporting its many natural resources, such as palm oil, rubber, timber, metals, and coal. However, with weak infrastructure and poor connectivity between the many islands making up Indonesia, transport cost and time are high, thus lowering productivity and hurting margins for investors. A complex customs process also complicates trade in the country.

To transform Indonesia into a transport and logistics hub in the region, the Indonesian government has invested heavily into logistics infrastructure, with over USD 29 billion budgeted for numerous projects in air, sea, road, and rail transport in 2019 alone.



6. Supply Chain Environment

I. Industry Profiles in Indonesia

Breakdown of 2018's Top 10 Exports^{1,2,3,4}

Indonesia's major sectors by gross domestic product (GDP) in 2017 are service (around 45%), industry (around 41%) and agriculture (around 14%).

In Indonesia, the service sector mainly includes financial services and tourism. The major industries are timber, textiles, cement, electronics, and chemicals. The primary products dominating the agricultural industry are rubber, palm oil, rice, sugarcane, coffee and tea, tobacco, and spices.

In 2018, Indonesia's total global shipments amounted to USD 180.2 billion of which over 60% were contributed by its top 10 exports.

Product Groups (Note)	Value	% of Total Exports
1. Mineral fuels including oil	USD 42.0 billion	23.3%
2. Animal or vegetable fats and oils	USD 20.3 billion	11.3%
3. Electrical machinery, equipment, and parts	USD 8.9 billion	4.9%
4. Vehicles other than railway, and parts and accessories	USD 7.6 billion	4.2%
5. Rubber and related products	USD 6.4 billion	3.5%
6. Machinery	USD 5.9 billion	3.3%
7. Iron and steel	USD 5.8 billion	3.2%
8. Precious stones and metals	USD 5.6 billion	3.1%
9. Ores, slag, and ash	USD 5.3 billion	2.9%
10. Footwear, and related products	USD 5.1 billion	2.8%

Note: The above categories are grouped based on the Harmonized Commodity Description and Coding System (HS Code). For specific items within each category, please refer to the following link: www.censtatd.gov.hk/trader/hscode/index.jsp

Agriculture is still a major sector of the Indonesian economy. Due to large scale plantations, particularly for palm oil production, agriculture uses 30% of the total land area of the country.

Indonesia is the world's largest palm oil producer. With over 40 million tonnes produced in 2018, it accounted for around 50% of the global production. In addition, rubber is also an important industry in Indonesia. With 34% of the global exports, the country was the world's second largest rubber exporter behind Thailand.

II. The Key Supported Industries in Indonesia⁵

Under the Masterplan for Acceleration and Expansion of Indonesia Economic Development (MP3EI) adopted in 2010, the Indonesian government aims to create six Economic Corridors (Sumatra, Java, Kalimantan, Sulawesi, Bali-Nusa Tenggara, and Papua-Kepulauan), each specialised in a few specific industries. These industries include agriculture, food and beverage, mining, energy, information and communications technology (ICT), and logistics. The MP3EI aims to transform Indonesia into a developed nation, and a global leader in the above industries. This section will focus on agriculture, food and beverage, and ICT.

A. Supply Chain Policy for Key Supported Industries and Local Supply Situations

Agriculture is a major industry in Indonesia, with palm oil, and rubber being the most important commodities. The country has been the largest palm oil producer in the world since 2007.



Agriculture

The MP3EI aims to improve the productivity of both the palm oil and rubber plantations. Currently, Indonesia's palm oil productivity is 3.8 tonnes/Ha, far below the potential productivity of 7 tonnes/Ha. Similarly, around 80% of the rubber in Indonesia is produced by small individual holders who still use traditional methods of production, resulting in around 30% less productivity than larger private companies or state-owned enterprises (SOEs).

Improved logistics infrastructure will also reduce costs, travel time, and therefore increase productivity in the downstream industries of the palm oil and rubber value chain.



Food and Beverage

The food and beverage (F&B) industry is a major contributor to Indonesia's GDP (around 6.3%), and the largest employer among the manufacturing industries.⁶ According to the National Statistical Agency (Badan Pusat Statistik, BPS), the F&B industry in Indonesia has over 6,000 large and medium-sized companies, and over 1.6 million micro and small-sized producers, employing a total of over 4 million workers.

One of the major issues in the F&B industry is that the import duties on the end products are lower than those of the raw materials. This leads to companies preferring to import end products, rather than develop the local F&B processing industry. This issue is further compounded by the fact that Indonesia currently does not provide sufficient raw materials for the F&B industry, forcing businesses to import most of the necessary ingredients at expensive rates.



Information and Communications Technology

The information and communications technology (ICT) will be an important industry of the future for Indonesia. The current ICT infrastructure in Indonesia is relatively weak, ranking 111th out of 176 countries in the International Telecommunication Union (ITU)'s Development Index, and seventh among its ASEAN peers.

However, the ICT infrastructure is improving rapidly, with 55% of the population having access to the internet in 2017. The government aims to further expand broadband access through the Palapa Ring project, which involves the construction of an optic fibre network to increase internet penetration. The project is split into the West, Central, and East sections. The West section, which serves the most populous regions of Java and Sumatra, has been completed, but the Central and East sections serving the poorer regions are yet to be fully operational.

III. Key Raw Materials Sourcing Platforms/Channels⁷

Major online B2B sourcing platforms in Indonesia include IndoTrading, eWorldTrade, and Ralali.

The annual Trade Expo Indonesia is a B2B trade fair that showcases Indonesia's products, ranging from manufacturing and mining to agricultural products. It is held every October at the Indonesia Convention Exhibition (ICE) in Greater Jakarta. The fair is mainly aimed at boosting exports, and has many activities held alongside the fair, such as trade, tourism and investment forums.

IV. Procurement Situation (local and oversea) of Raw Materials

A. Hurdles or Problems Encountered

Indonesia is a country with great investment potential, especially given its advantageous position in Southeast Asia, its large population, and its abundance of natural resources such as coal, metals, and timber. However, some major hurdles pose issues to foreign investors wishing to do business in Indonesia:

- Weak infrastructure and logistics facilities increase the time and costs required for both imports and exports;
- High import tariffs on raw materials hurt investors' margins (e.g. in the F&B industry); and
- Use of traditional methods in many industries lead to relatively low productivity.

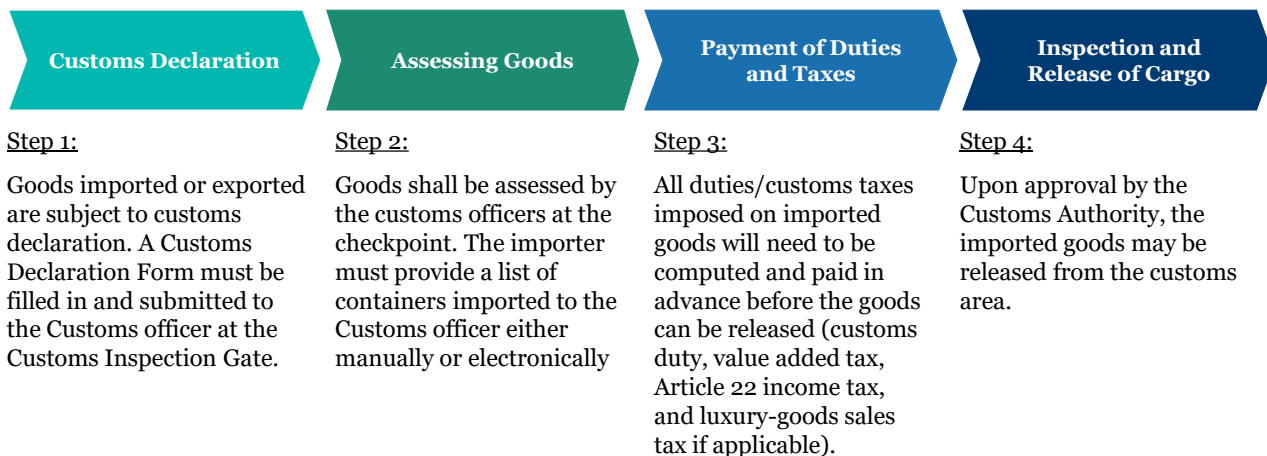
According to a 2019 report by the World Bank, Indonesia is ranked 73rd in the world in terms of ease of doing business, and is ranked sixth out of the ASEAN countries (Hong Kong is ranked fourth in the world in the same report). Indonesia ranks comparatively well in getting credit (44th), protecting minority investors (51st), and resolving insolvency (63rd).

B. Efficiency of Customs and Clearance Process⁸

Indonesia applies two systems of tariffs classification. The eight-digit ASEAN Harmonised Tariff Nomenclature (AHTN) is used for trade transactions between Indonesia and the other ASEAN countries, whilst the six-digit Harmonised Commodity Description & Coding System (commonly known as the HS Code) applies for trade with non-ASEAN countries. All imported and exported goods into/from the country must be categorised using the HS Code.

All the goods imported are liable for customs duty, value added tax, and Article 22 income tax. Some goods may additionally be liable for luxury-goods sales tax. Any goods arriving from other ASEAN countries may benefit from preferential rates according to the ASEAN Free Trade Agreement.

Both individual and corporate importers must register with the Directorate General of Customs and Excise and obtain a Customs Identification Number (Nomor Identitas Kepabeanan, NIK). Importers must then obtain an Importer Identification Number (Angka Pengenal Importir, API) in order to be allowed to import. Exporters must also obtain a NIK, and will require a taxpayer identification number (Nomor Pokok Wajib Pajak, NPWP), an appropriate business license from the relevant authority, and an Exporter Identification Number (Angka Pengenal Ekspor, APE). For further information regarding API and APE, please refer to Section 2.

Custom Clearance Process⁹

The following table shows the supplementary documents needed for customs declaration:

Import and Export Goods	
1	Invoice
2	Packing list
3	Certificate of insurance
4	Bill of lading
5	Customs import/export declaration
6	Import/export permit
7	Certificate of origin (for exporting)
8	Any other product specific required documents

V. Logistics Support

A. Infrastructure Conditions (e.g. major airports/ports/highways)^{10,11,12,13,14}

Indonesia has the potential to be a major Southeast Asian transportation and logistics hub as it benefits from strategic access to the Malacca Strait and other major international shipping lanes. However, the country's infrastructure are aging, coverage and connectivity are poor, and logistics costs are high, preventing Indonesia from becoming a top ASEAN hub. Since he took office in 2014, Joko Widodo's administration has made upgrading the country's infrastructure a national priority, with numerous projects in air, sea, road, and rail transport.



Airports

Indonesia has a total of 297 airports, with 28 of them being international airports. However, only 19 of these have scheduled international flights. The two largest airports in the country are Jakarta's Soekarno-Hatta Airport and Bali's Ngurah Rai, which together handled a total of over 14 million international passengers, and 190,000 tonnes of international cargo in 2018.

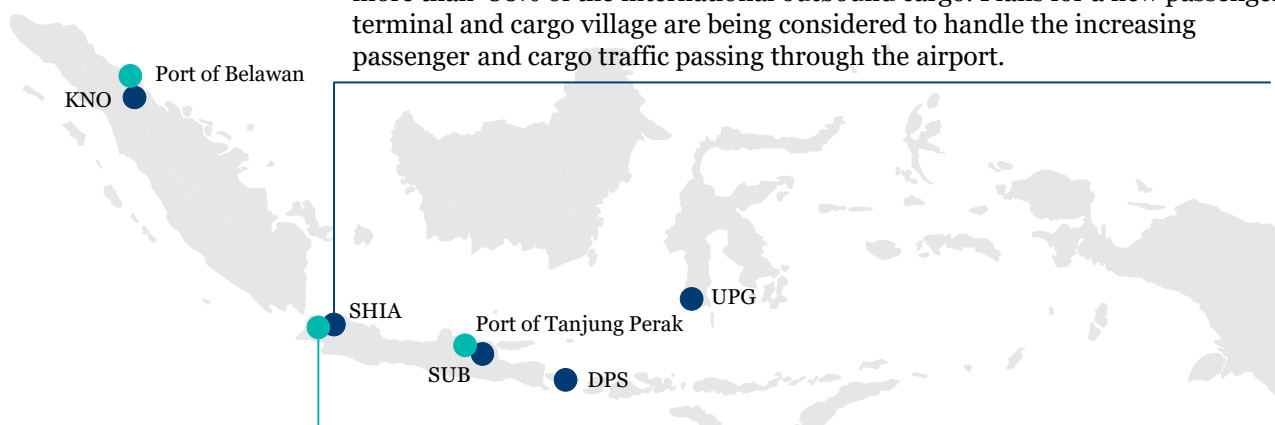


Seaports

Indonesia has 97 commercial seaports, which are mostly managed by the Indonesia Port Corporations I-IV (IPC). As an island nation, seaports are extremely important to Indonesia's trade, and the government has accordingly enacted the Sea Toll Road program. This programme aims to modernise the maritime infrastructure, reduce time and costs, and improve connectivity between the Indonesian islands.

Location of Major Airports and Seaports

- International Airports
- Ports



Soekarno-Hatta International Airport (SHIA)

Jakarta's Soekarno-Hatta Airport was in 2018 the world's 18th busiest airport and the busiest in Southeast Asia, according to Airports Council International. It handled nearly 50% of Indonesia's international passenger departures and more than 80% of the international outbound cargo. Plans for a new passenger terminal and cargo village are being considered to handle the increasing passenger and cargo traffic passing through the airport.

Tanjung Priok Port

Tanjung Priok Port is located on the outskirts of Jakarta, and handles over half of Indonesia's international cargo traffic (i.e. more than 6 million TEUs in 2017). The port is currently undergoing an expansion process which should increase its capacity to 18 million TEUs per year.

This map is for illustrative purposes only, and does not imply official endorsement or acceptance of any boundaries and/or names.



Highways

Indonesia's road network is 524,000 kilometres long, with over 40 toll roads totalling around 1,000 km in length.

However, Indonesia still has a huge problem with traffic jams, with Jakarta and Surabaya ranking in the top five worst cities for roads according to the Castrol's Stop-Start Index. In response, the government has planned to construct 1,500 km of toll roads by 2024, and over 4000 km more by 2030. This project will also provide better logistics access for industrial areas, special economic zones, as well as new ports and airports.



Railways

The rail network in Indonesia is over 5,000 km in length, and was mostly built during the Dutch colonial era. Today, railways in Indonesia are mostly managed by the state-owned PT Kereta Api.

To remedy its poor railway infrastructure, the government has planned many expansion projects, with 415 km of railways expected to be built in 2019. The largest of these railway projects is the Jakarta-Bandung high-speed rail project, which is a joint project with Mainland China, and a major part of China's Belt and Road Initiative (BRI). Half of the track is expected to be completed by the end of 2019.

In addition, the Jakarta Mass Rapid Transit (MRT) system opened in March 2019. This MRT system is the first subway system in Indonesia. The system is expected to help ease the traffic issues in and around Jakarta.

B. Key Logistics Hubs¹⁵

The current infrastructure in Indonesia is aged and lagging behind its ASEAN peers. According to the Asian Development Bank, Indonesia's spending on infrastructure are below Asian average. Every year, the country spends around 3% of its GDP on infrastructure, compared with 5% in developing countries and 7% for Vietnam and Mainland China.

However, President Joko Widodo has made upgrading Indonesia's infrastructure a national priority. He has planned over 200 National Strategic Projects, which are already under construction. In 2019 alone, the government has budgeted over USD 29 billion for infrastructure projects, such as toll roads, railways, bridges, dams, airports, and housing.

The largest infrastructure programmes in Indonesia are the Jakarta MRT which opened in March 2019, the Tanjung Priok Port expansion, and the Jakarta- Bandung high-speed rail project. Ultimately, the infrastructure projects aim to improve connectivity between the many islands in Indonesia, and bring the country on par with its ASEAN peers.

C. Logistics Information Tractability and Transparency¹⁶

Indonesia has relatively poor logistics performance as compared to other ASEAN countries. In the 2018 World Bank's Logistics Performance Index (LPI), Indonesia was ranked 46th out of 160 countries for the overall LPI, a large improvement from the 2016 result (ranked 63rd out of 160). Indonesia ranked fifth among the ASEAN countries.

On a granular level, the LPI score is made up of six elements: (1) Customs; (2) Infrastructure; (3) International shipments; (4) Logistics competence; (5) Tracking and tracing and (6) Timeliness. Among these categories, Indonesia performed relatively better in Tracking and tracing (39th) and Timeliness (41st), but is hampered by bad rankings in Customs (62nd) and Infrastructure (54th).

Source:

- ¹ *Trade Map, International Trade Centre*
- ² *The World Factbook: Indonesia, Central Intelligence Agency*
- ³ *Indonesia Oilseeds and Products Annual 2019, USDA Foreign Agricultural Service*
- ⁴ *Indonesia, Observatory of Economic Complexity*
- ⁵ *Masterplan Acceleration and Expansion of Indonesia Economic Development 2011-2025, Coordinating Ministry for Economic Affairs*
- ⁶ *F&B contribution to GDP steadily increases despite slow growth, Jakarta Post, Jul 2019*
- ⁷ *Trade Expo Indonesia 2019, PT Debindomulti Adhiswasti*
- ⁸ *Import and Export Procedures in Indonesia – Best Practices, Dezan Shira & Associates, Mar 2018*
- ⁹ *Customs Declaration, Embassy of the Republic of Indonesia in Washington DC*
- ¹⁰ *Operator starts design process for Soekarno-Hatta International Airport's Terminal 4, Jakarta Post, Jun 2018*
- ¹¹ *Ports in Indonesia ready to expand, ITE Transport & Logistics, Sep 2017*
- ¹² *Transportation Statistics 2017, Ministry of Transportation*
- ¹³ *International Air Traffic Indonesia 2003-2017, Badan Pusat Statistik*
- ¹⁴ *Indonesia plans to construct 4,479 km toll roads by 2030, Jakarta Post, May 2019*
- ¹⁵ *Will Indonesia's infrastructure bottleneck ever be unclogged?, Euromoney, Sep 2018*
- ¹⁶ *World Bank's Logistics Performance Index (LPI)*

7. Infrastructure

Executive Summary

Infrastructure development has been identified as one of the core strategies to increase Indonesia's competitiveness and thus achieving economic growth.

Industrial estates offer fundamental manufacturing facilities, preferential business licensing processes and government incentives to foreign investors. There are currently 89 industrial estates in the country and various incentives have been put in place to attract foreign investments. Most of these industrial estates are located in Java Island.

There are 245 National Strategic Projects which aim to develop and enhance the country's infrastructure in areas like roads and bridges, railways, water and sanitation, electricity, port and information technology. They will be developed through various government and Public Private Partnerships (PPP) funding schemes.



7. Infrastructure

I. List of Major Industrial Estates and Geographical Locations

A. Availability of Infrastructure, Associated Cost of Usage, and Options for the Major Industrial Estates

There are currently 89 industrial estates covering a total gross area of over 50,000 hectares (ha) across Indonesia. Industrial estates offer fundamental manufacturing facilities, preferential business licensing processes and government incentives to foreign investors. Most of industrial estates are located in or next to Special Economic Zones (SEZs) with relatively established infrastructure and logistics facilities. Industrial estates in SEZs can also take advantage of any additional preferential taxation and customs policies in the SEZs. Thus, many foreign investors consider industrial estates as their preferred destination for setting up a manufacturing footprint in Indonesia.

In Indonesia, industrial estates are developed and operated by private and/or state-owned enterprises (Badan Usaha Milik Negara, BUMN). Some of them are co-developed by local and foreign companies, e.g. a Mainland Chinese state-owned enterprise, Guangxi State Farm Group, and an Indonesian company, PT Sentrabumi Palapa Utama jointly developed Kawasan Industri Terpadu Indonesia China.

Support and Incentives^{1,2,3,4,5,6,7}

When considering establishing in Indonesia's industrial estates, it is important to assess the availability of utilities, the transportation network around the estate, and the incentives provided by the government.

Utilities

Industrial estates are generally equipped with electricity and water supply, drainage systems, wastewater systems, and telecommunications network facilities. Some more established industrial estates even offer commercial services (e.g. banking services), residential areas or recreational areas.

Transportation

Most of the industrial estates are clustered near SEZs and major cities like Jakarta and Batam. Therefore, they benefit from a privileged access to established transportation links and hubs such as roads, railways, ports, and airports.

Government Incentives

Industrial estates offer both tax and non-tax incentives:

- Tax incentives: the applicable tax incentives depend on the location of the estate. Some examples of incentives are tax holidays and value added tax (VAT) allowances, preferential corporate income tax (CIT) rates or preferential regional taxes rates.
- Non-tax incentives: certain businesses can benefit from a fast-track investment licensing service, or can be exempt from filling an environmental analysis of their factories (if the operator of the industrial estates has already done the analysis).

For further details on incentives regarding industrial estates, please refer to the official website of the Ministry of Industry (www.kemenerin.go.id/?) and section 9 of this report.

Industrial Estates' Location and Regional Implications^{1,7,8}

Indonesia's industrial estates are classified into four different Industrial Development Zones (Wilayah Pengembangan Industri, WPI) depending on their location:

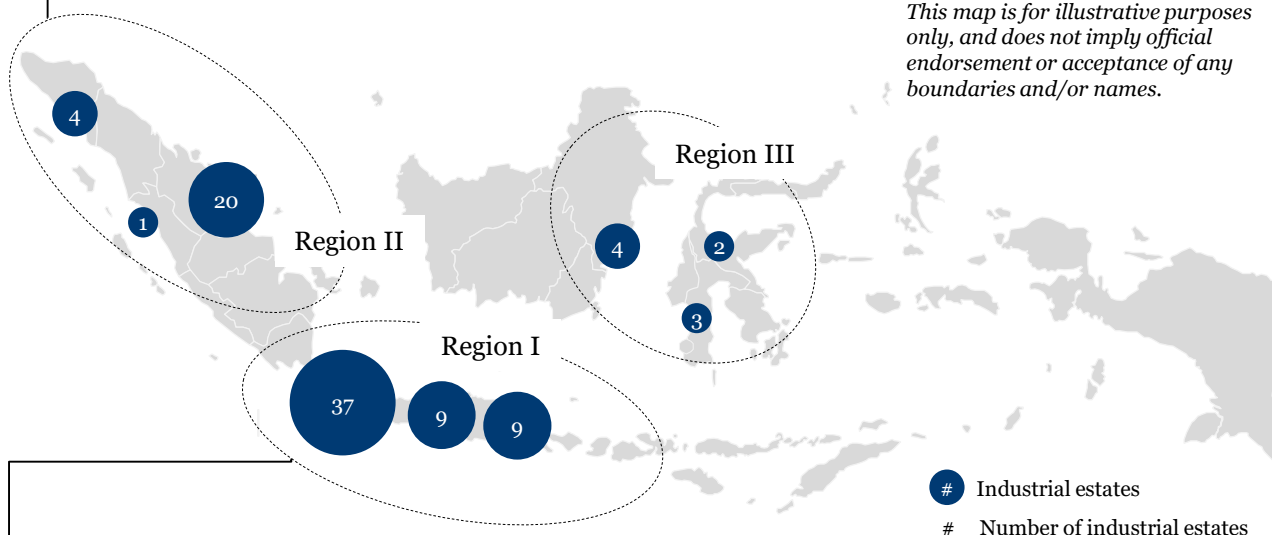
- Developed WPI: in Java (Region I in below map);
- Developing WPI: in Southern Sulawesi, Eastern Kalimantan, parts of Northern Sumatra and Southern Sumatra (Region II & III in below map); and
- Potential WPIs: in Northern Sulawesi, Western Kalimantan, Bali and Nusa Tenggara (collectively known as Potential WPI I), as well as Papua and West Papua (collectively known as Potential WPI II). There are no industrial estates currently under development in these two areas.

For a detailed list of industrial estates, please refer to Appendix 1.

Developing WPI (Region II & III)

- Number of industrial estates: 34.
- Key industries: heavy manufacturing industries (e.g manufacturing of stainless steel, mining) and natural resources based (e.g. agriculture, mining).
- Tax incentives available: 1) VAT and import duty exemption on the purchase of machines and equipment used to produce VAT eligible outputs; 2) income tax facilities.
- Overview: developing WPI are rich in natural resources but infrastructure are generally less developed for manufacturing industries. The government has been accelerating the development of the region's logistics facilities, such as highway, seaports and airports, around industrial estates to improve the overall efficiency of the logistics system.

This map is for illustrative purposes only, and does not imply official endorsement or acceptance of any boundaries and/or names.



Developed WPI (Region I)

- Number of industrial estates: 55.
- Key industries: hi-tech based (e.g electronics, automotive), consumer focused (e.g. automotive, food processing), or labour-intensive manufacturing industries (e.g. textile and footwear).
- Tax incentives available: 1) VAT and import duty exemption on the purchase of machines and equipment used to produce VAT eligible outputs; 2) income tax facilities; 3) CIT reduction of 10% to 100% due for a period of five to 15 years from the start of production.
- Overview: this region holds the most established and largest number of industrial estates in the country. Businesses can enjoy the benefits of an abundant workforce and established infrastructure. However, the workforce is expensive on Java (with the highest minimum wages in the country), and land prices in the region are high.

Foreign Direct Investment (FDI)^{9,10,11}

Indonesia has been an attractive destination for FDI due to its advantageous geographical location, rich natural resources and large labour force. In 2018, the country received around USD 29.3 billion FDI, 58% of which was directed at Java (developed WPIs), and 16% at Sumatra (developing WPIs). However, this figure represents an 8.8% decrease compared with 2017, due to the political uncertainty arisen from the presidential election in 2018.

According to the Indonesia Investment Coordinating Board, in terms of FDI value, basic metal industry attracted around USD 2.2 billion, followed by chemical and pharmaceutical industry with around USD 1.9 billion and machines and equipment industry with around USD 1.3 billion. However, in terms of the volume of projects, the food and beverage industry tops the list.

Cost of Usage^{1,2}

Businesses and investors are typically charged with three main types of fees:

1. Cost of land and building (lease or sale, depending on the industrial estates);
2. Utilities fee, including water, gas, electricity and telecommunications; and
3. Service charge, charged by the industrial estate operators.

The land and buildings in industrial estates can be sold or leased. Usually, the land price depends on factors such as location, provision of utilities, transportation links, proximity and access to raw materials etc. Industrial estates in developed WPIs have the highest cost of usage due to their proximity to major industrial and business centres (e.g. Jakarta and Surabaya), well-developed transportation networks (e.g. the largest seaport in the country, Port of Tanjung Priok and double-track railway for cargo transfer in Java), as well as their established infrastructure within the estate.

For more details on prices of specific sites, please refer to the official website of each industrial estate.

Outlook⁷

The development of industrial estates is at the centre of the Indonesian government's strategy to attract FDI. Currently, most of the manufacturing activities are concentrated on Java. However, the government is pushing for an Indonesia-centric development by encouraging the establishment of industrial estates outside Java.

The government's national strategic projects already include the development of industrial estate outside of Java. These industrial estates will be mostly focused on natural resources based industries and mineral processing. Supporting infrastructure, such as electricity, natural gas and water supply, industrial water and solid waste treatment facilities, telecommunications facilities, roads or seaport, will be developed within and around the industrial estates.

B. Land or Building for the Major Industrial Estates

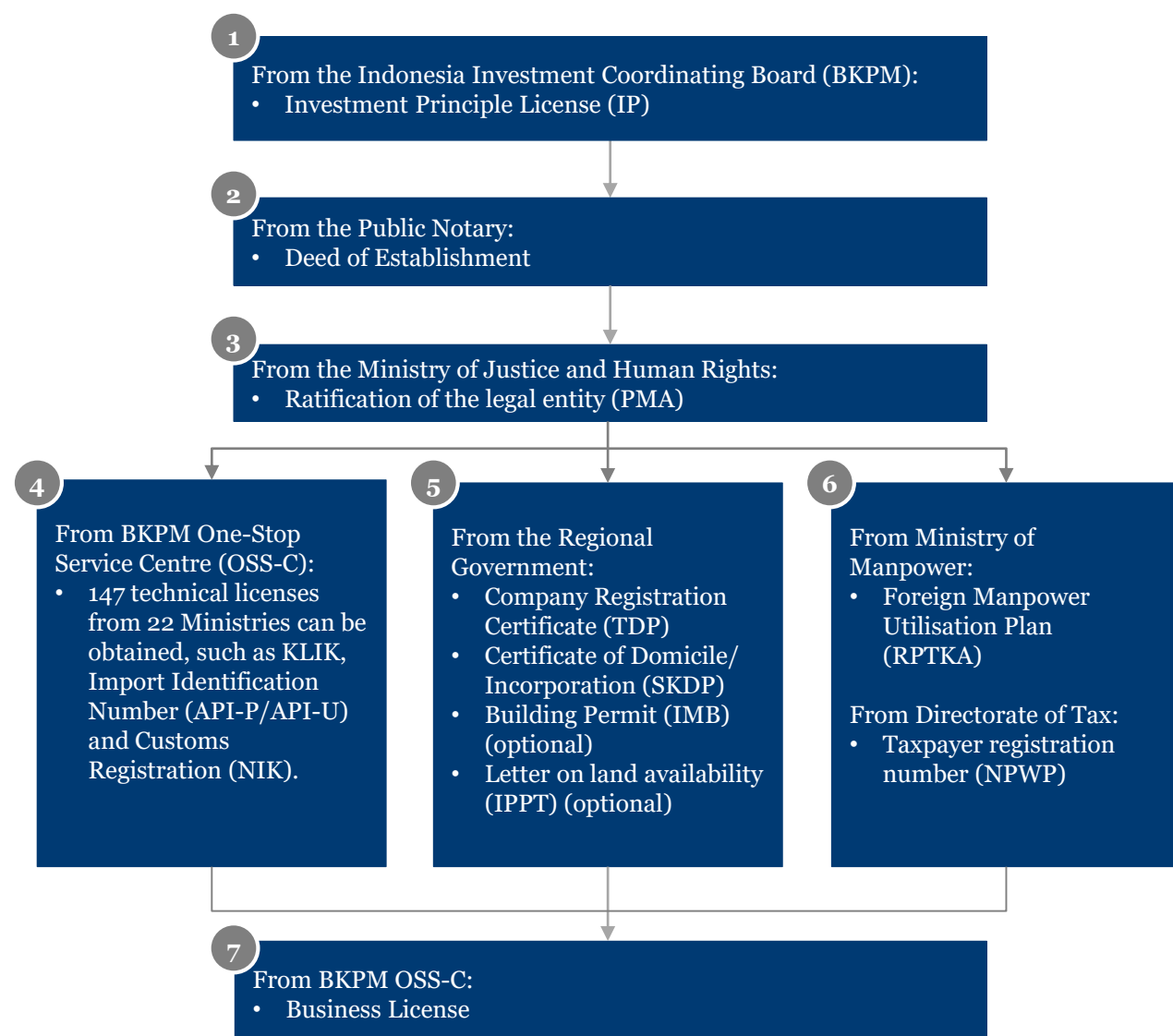
Availability for Foreign Ownership²

Mainland China and Hong Kong factory owners can purchase land and buildings in Indonesia via a Foreign Investment Limited Liability Company (PT PMA). Most industrial estates offer a simplified land acquisition process for investors. Some of them may even offer a three-hour express service for qualified investors to obtain all required documents, including company incorporation, construction permit and investment license, etc.

Application Procedures for Setting up Business Operation in Industrial Estates^{12,13,14}

Standard Procedures for All Industrial Estates

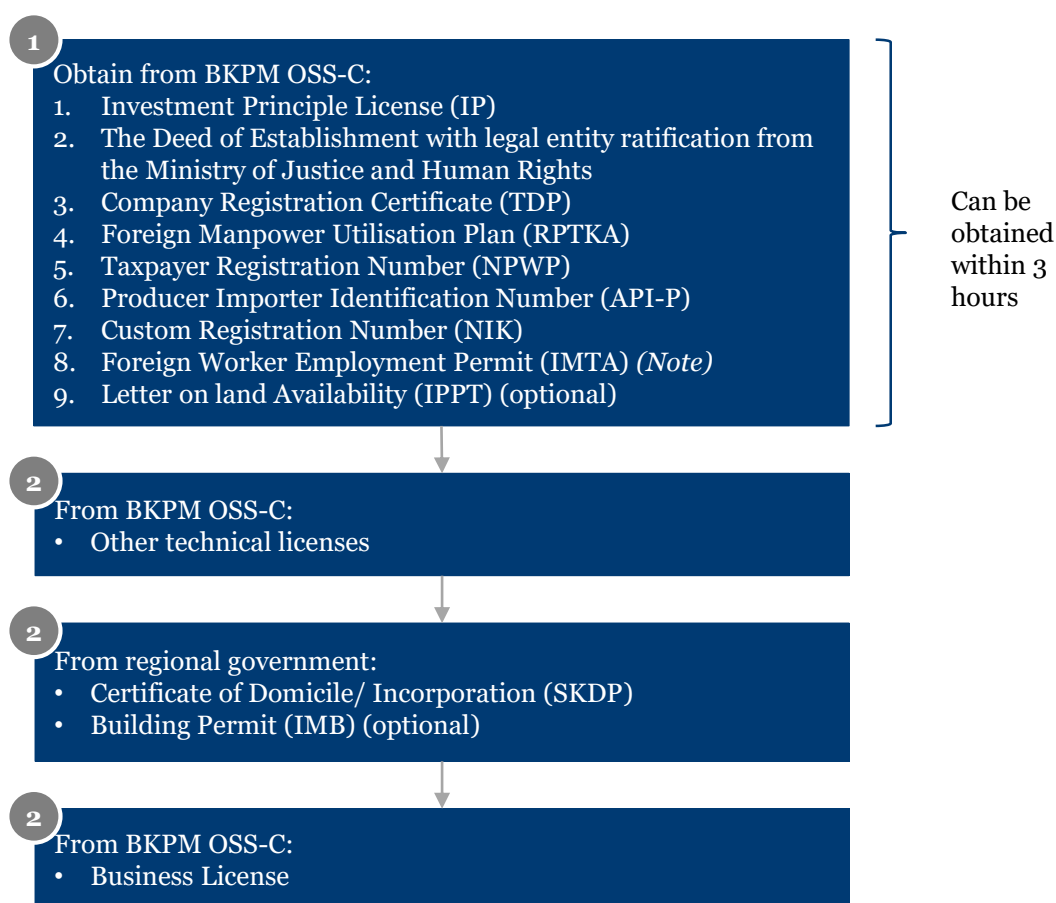
The Fast-track project construction facility (KLIK) allows investors with a Capital Investment Registration (Pendaftaran Investasi, PI) to start construction immediately with this license, while the investor can obtain the other licenses in parallel with construction work, such as the Building Permit (Ijin Mendirikan Bangunan, IMB). As of 2018, there are 32 industrial estates that have been set up by the government that can benefit from this process. Please refer to the official website of each individual industrial estate for their eligibility.



Three-hour Investment Express Service for Designated Industrial Estates

This service is part of the Indonesian government's second economic policy package, and aims to cut the time of company registration and business licensing procedures to only three hours. The permits issued by this service ensure the investors can start a new company, work legally in Indonesia, and import capital goods for production.

- Criteria for express service:
 1. At least IDR 100 billion investment; or
 2. Employ at least 1,000 local workers.
- Eligible Industrial Estates: Please refer to the official website of each individual industrial estate for their eligibility.
- Under the Three-hour Investment Express Service, the procedures for setting up business operation in industrial estates are as follows:



Note: IMTA is not required under the new requirement. A new document called “Notification” supersedes the IMTA. However BKPM has not announced whether the “Notification” will be issued in the three-hour Investment Express Service.

II. Potential Infrastructure Shortfall^{15,16}

In the World Economic Forum's 2018 Competitiveness Report, Indonesia ranked 71st out of 140 countries for the quality of its infrastructure, below other Southeast Asian peers like Malaysia (32nd) or Thailand (60th). The country ranked especially low in the road connectivity criteria (120th), electrification rates (98th), and exposure to unsafe drinking water (92nd). In addition, the country has:

- Low railroad density with only 2.5km of railroad/km² (82nd on railroad density criteria)
- Poor quality roads (75th on road quality criteria); and
- Non reliable water supply (75th on reliability of water supply criteria).

The Indonesian government has identified poor coordination between stakeholders and lack of financing as the two major causes of infrastructure shortfall. To overcome these obstacles, the government has taken steps to foster the development of infrastructure across the country, including establishing the Committee for Acceleration of Priority Infrastructure Delivery (Komite Percepatan Penyediaan Infrastruktur Prioritas, KPPIP), Economic Policy Packages and Public Private Partnerships (PPP) schemes.

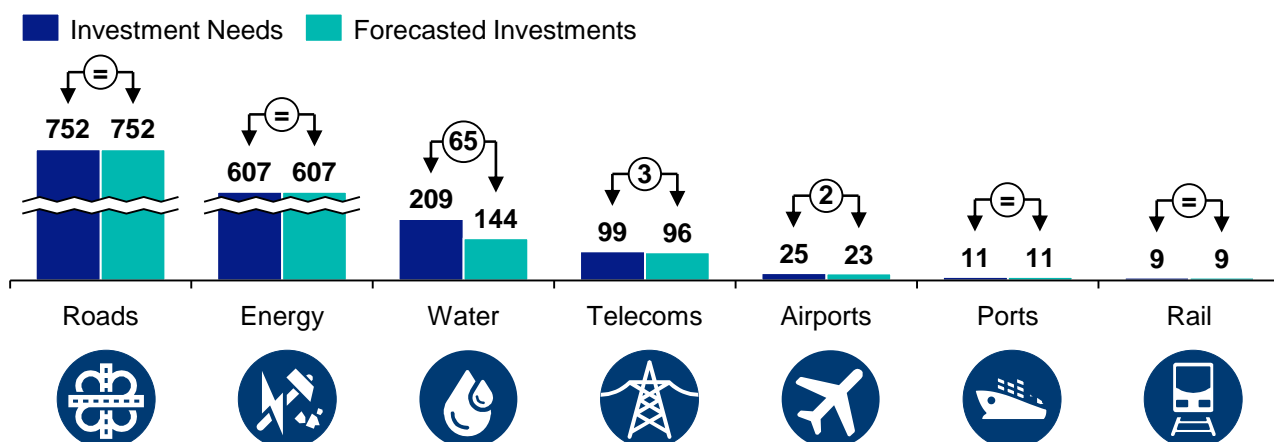
III. Latest and Upcoming Major Local Infrastructure Projects and Spending^{15,16,17,18,19,20,21}

The development of infrastructure has been identified as one of the core strategies to increase Indonesia's competitiveness leading to economic growth.

In 2014, the government formed the KPPIP to accelerate the construction of priority infrastructure and promote quality upgrades. In addition, Indonesia has identified 245 National Strategic Projects (NSP), which cover areas such as roads and bridges, railways, water and sanitation, electricity, port and information technology. These construction/upgrade projects will receive the support of various government and PPP funding schemes. Furthermore, in 2015, the Indonesian government established Economic Policy Packages which aim to improve policies, regulations, and funding of infrastructure development, in order to accelerate the infrastructure delivery and quality in the country.

According to the G-20's Global Infrastructure Outlook, from 2016 to 2040, around USD 1.7 trillion will be needed to finance all infrastructure projects in the country (see chart below for sector breakdown). Over the period it is forecasted that Indonesia's public and private sectors will invest USD 1.6 trillion, therefore covering over 95% of the country's needs. Only water infrastructure will face a great investment gap, of USD 65 billion.

Indonesia's Infrastructure Investment Needs 2016-2040 per Sector (in USD billions)



Transportation

Air



Indonesia has 297 airports, 28 of which are international airports. There are three types of airport projects in the NSP, including revitalising old airports, building new airports, and expanding existing airports (e.g. a new terminal at Jakarta's Soekarno-Hatta International Airport).

Ports



Indonesia is strategically located near major shipping lanes. Thus, the development of ports is important in providing Indonesian exporters with low cost access to international trade. In the NSP there are 10 initiatives concerning the construction, development, or expansion of seaports and inland waterways. Most of the sites are located outside Java, and near SEZs and/or industrial estates, including North Sumatera, Sulawesi, and even West Papua. This is in line with the government's initiative of developing logistics facilities outside Java.

Rail



The construction of Indonesian railway is mainly focused on the inter-city railway to provide an efficient solution to traffic congestion issues in major cities such as Jakarta, Bandung or Surabaya. There are 15 projects in the NSP pipeline. One of the most significant is the Jakarta-Bandung High Speed Train, which will cut the journey between the two cities from the three to five hours required currently to only 45 minutes.

Roads



There are currently 88 toll and non-toll road projects ongoing in the country. The government plans to develop around 4,500 km of toll roads by 2030, in addition to the 1,500 km toll road projects that are to be completed by 2024. As roads remain the most frequently used means of transport on land, their development is essential in stimulating the country's logistics system and connecting remote areas.

Utilities

Power



Indonesia faces increasing pressure on electricity supply due to population growth and growing industrial operations. The NSP thus includes nine electricity infrastructure projects, such as the development of power plants (fueled by coal or natural gas) and electricity transmission line, mainly in Java and Sumatra. Moreover, in order to tackle the urban waste issue and provide extra electricity supply, the government is planning to construct waste-to-energy power plants in major cities like Jakarta, Medan, and Surabaya.

Water



Unstable water supply and the lack of sewage infrastructure in both residential and industrial areas are identified as key infrastructure deficiencies in Indonesia. The Indonesian government has planned eight Drinking Water Supply System (Sistem Penyediaan Air Minum, SPAM) projects across the country, mainly in less developed and upcoming industrial areas with PPP funding. The Indonesian government has also secured a USD 100 million loan from the World Bank for the USD 600 million National Urban Water Supply Project, which aims to provide access to the improved water sources for the population and strengthen the operational performance of water service providers in underserved urban areas.

On the other hand, while Jakarta has continually grown as the industrial centre of the country, the sewerage system of the city has not caught up with the increasing amount of wastewater produced. This makes Jakarta being the second worst capital city in Southeast Asia in terms of sanitation with a wastewater treatment coverage ratio of 4%. In order to rectify this condition, the government has been undertaking the Jakarta Sewerage System Project to achieve 75% wastewater treatment coverage in 2022.

The government is also planning a new tsunami warning system. Indonesia often experiences earthquakes and tsunamis, such as the 2018 Sulawesi earthquake that left over 2,000 dead and thousands of homes destroyed. Indonesia has lacked a proper operational tsunami warning system since 2012, and a new system will give citizens more time to prepare for the natural disasters.

Telecommunications



While mobile broadband adoption is high (95.7% of Indonesian have a mobile-broadband subscription), fixed-broadband is not as common in the country with only 2.3% of population having a fixed-broadband Internet subscription, and only 25.5% of population having access to the internet. This is mainly due to high lease rate for broadband access. In an attempt to increase broadband availability to the population, the Indonesian government has commenced the Palapa Ring Broadband Project. The project will build optic fibre networks around Indonesia, to provide affordable and well-distributed broadband access throughout the country. The project is expected to complete by 2019 and aims to connect at least 70% of urban population and 49% of rural population to the internet.

For the complete list of National Strategic Projects, please refer to the official website of the Committee for Acceleration of Priority Infrastructure Delivery (KPPIP) (www.kppip.go.id/en).

Funding Infrastructure Through Public Private Partnership (PPP)

The Indonesian government has long been recognising the importance of private participation in infrastructure funding, as well as knowledge and experience sharing in construction, operation and management of the infrastructure facilities. The government continues to evaluate and strengthen the policy to support PPP. For example, the National Development Planning Agency (BAPPENAS), which is responsible for PPP planning and implementation, issues the PPP Book every year to provide information on infrastructure investment availability.

According to BAPPENAS, public resources can only fulfil around 40% of the total infrastructure funding needs for 2015-2019. Approximately 35% of the funding gap is expected to be fulfilled through cooperation with private investors under PPP schemes and ongoing projects.

IV. Availability of Natural Resources^{21,22,23,24,25,26,27,28}

Natural Resources	Details
Natural Vegetation, Forests and Timber	<ul style="list-style-type: none"> • Around 70% of Indonesia's total land area is covered by forests, half of which is allocated for production purposes. • Indonesia is one of the world's largest exporters of tropical timber products, which are produced from logging activities in natural forests and thus causing serious deforestation in the past two decades. The key timber products exported include plywood, pulp and paper, furniture and handicrafts. • In order to rectify the deforestation trend and preserve the natural forests, the Indonesian government will enact a permanent ban on issuing forest-clearing permits for plantations and logging.
Agriculture	<ul style="list-style-type: none"> • The agricultural sector in Indonesia accounts for roughly 14% of the GDP and involved around 31% of the total labour force in 2017. • Indonesia is the largest palm oil producer in the world. • Common agriculture products and important agricultural exports include: cocoa, rubber and coffee.
Fishing / Aquaculture	<ul style="list-style-type: none"> • Indonesia is the world's second largest seafood producer. • There are over 3,000 species of bony fishes and more than 850 sharks, rays, and chimaeras found in the country's water system.
Livestock	<ul style="list-style-type: none"> • The biggest population of livestock in Indonesia is poultry followed by goat, dairy cattle, and beef cattle. • The absence of pork production reflects the preference of the Muslim dominated population.
Water Resources	<ul style="list-style-type: none"> • Due to the abundant rainfall in the country, Indonesia holds around 6% of the total freshwater resources of the world. • The supply of fresh water is mainly concentrated on Kalimantan, Papua and Sumatra, which together account for 84% of the country's freshwater reserves.
Minerals	<ul style="list-style-type: none"> • Indonesia is one of the world's major producers of tin, ferroalloy, copper, nickel and aluminum. These mineral resources are produced for both export and domestic use. • Indonesia also produce precious stones, as well as gold and silver.
Coal, Oil and Fossil Fuels	<ul style="list-style-type: none"> • Coal briquettes are the single largest export category of Indonesia which represent 10% of the total exports. • Indonesia is the largest oil producer in Southeast Asia and produces around 775,000 barrels per year. However, Indonesia is a net importer of oil as the domestic supply cannot satisfy the country's increasing demand of oil. • Indonesia is also one of the top five major exporters of liquid natural gas in the world and holds 1.53% of the world's gas reserves. • However, over 70% of the local consumption of the more widely used fuel, liquefied petroleum gas, is still imported.
Renewable Energy	<ul style="list-style-type: none"> • Indonesia holds 40% of the world's geothermal resources, equivalent to 28.6 gigawatt of power generation potential. • The government targets to raise the share of renewable energy in the country's energy mix to a minimum of 23% by 2025, equivalent to 16,714 megawatt of renewable energy.

Source:

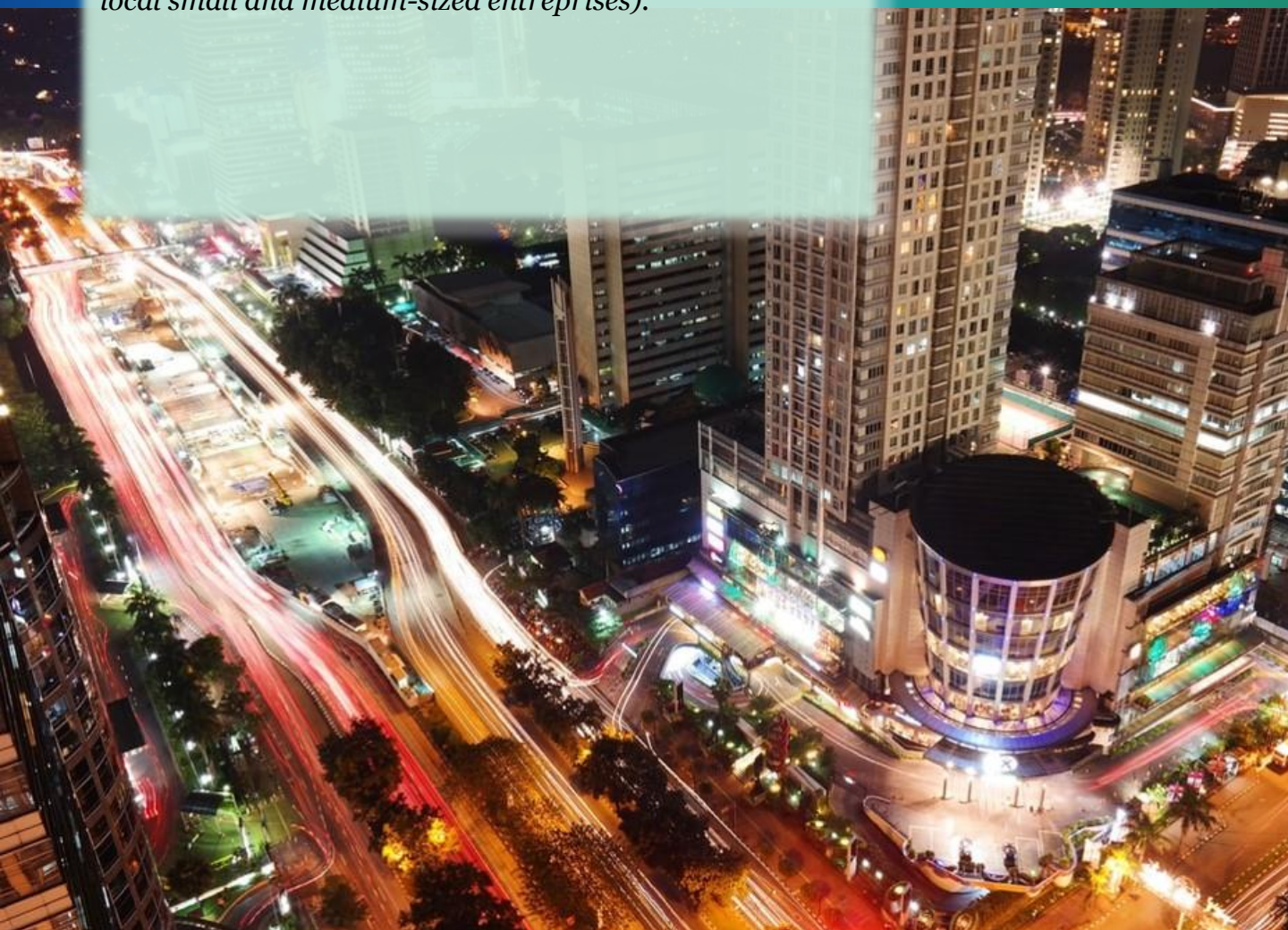
- ¹ *Indonesia Industrial Estate Directory, EU-Indonesia Business Network (EIBN)*
- ² *Introduction to the Indonesian Market – Selected Sectors & Special Economic Zones, EU-Indonesia Business Network (EIBN)*
- ³ *Indonesia Industrial Estate Directory 2015/2016 – A Guide for Investors, Industrial Estate Association of Indonesia (HKI)*
- ⁴ *Investment Project, Republic of Indonesia National Council for Special Economic Zone*
- ⁵ *Indonesia: Regulation to Encourage Investment in Industry, Library of Congress*
- ⁶ *Indonesia Corporate Tax Credits and Incentives, PwC Worldwide Tax Summaries*
- ⁷ *Indonesia Targets 18 Industrial Zones Operate in 2019, the Insider Stories*
- ⁸ *Regulation Number 142 Of 2015 On Industrial Estate, the Government Of The Republic Of Indonesia*
- ⁹ *FDI Realization based on sector: January - December 2018, Indonesia Investment Coordinating Board*
- ¹⁰ *FDI Realization in Indonesia based on location: January - December 2018, Indonesia Investment Coordinating Board*
- ¹¹ *Research Report January 2019 - Starting the Big Political Year, Indonesia-Investments*
- ¹² *Establishment & Registration Of Business, National Single Window for Investment*
- ¹³ *Frequently Asked Question on Investment, Indonesia Investment Coordinating Board (BKPM)*
- ¹⁴ *BKPM Reforms On Investment - 3 Hour Investment Services, Indonesia Investment Coordinating Board (BKPM)*
- ¹⁵ *The Global Competitiveness Report 2018, World Economic Forum*
- ¹⁶ *Progress of Infrastructure Development in Indonesia, Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)*
- ¹⁷ *National Strategic Projects, Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)*
- ¹⁸ *Global Infrastructure Outlook 2017, G20*
- ¹⁹ *Public Private Partnerships Infrastructure Projects Plan In Indonesia, National Development Planning Agency*
- ²⁰ *Prioritizing A National High Capacity Backbone Network, Director General Of Posts And Telecommunications*
- ²¹ *National Urban Water Supply Project, the World Bank*
- ²² *The World Factbook, CIA*
- ²³ *Indonesia's Pertamina gets extra 225,000 bpd crude locally as govt cuts imports, Reuters*
- ²⁴ *RI pushing LNG exports amid excess, the Jakarta Post*
- ²⁵ *The Observatory of Economic Complexity, the MIT Media Lab*
- ²⁶ *Water Resources, PT Sarana Multi Infrastruktur (SMI) Insight 2017*
- ²⁷ *Indonesia Fisheries, The Nature Conservancy*
- ²⁸ *Indonesia - All about the Indonesia-EU Voluntary Partnership Agreement, the EU FLEGT Facility*

8. Types of Industries Encouraged by the Local Government

Executive Summary

Indonesia aims at becoming a developed country by 2025. To meet this target, the government is implementing the Masterplan for Acceleration and Expansion of Indonesia Economic Development (MP3EI), which identified sectors such as industry, energy or mining, among others, as main economic growth drivers. In an effort to attract additional foreign investments, the government also defined a list of Pioneer Industries. Investment projects in these industries will be granted financial incentives.

However, under the Negative Investment List (DNI) some business activities are restricted or prohibited for foreign investors. The DNI stipulates sectors that are closed or opened under certain conditions (e.g. partnership with local small and medium-sized enterprises).



8. Types of Industries Encouraged by the Local Government

I. List of Government Programmes Encouraging Specific Industries

Masterplan for Acceleration and Expansion of Indonesia Economic Development (MP3EI)

The MP3EI has been developed to guide Indonesia's transition from a developing to a developed country over the 2011-2025 period. The final target for 2025 is to reach a gross domestic product (GDP) between USD 4.0 and 4.5 trillion (compared with USD 1.1 trillion in 2019) and a GDP per capita between USD 14,250 and 15,500 (USD 4,193 in 2019). To drive the country's development, the government identified eight major sectors in which investments should be prioritised:



Agriculture
(e.g. palm oil, rubber, cocoa, animal husbandry)



Mining
(e.g. coal, nickel, copper, bauxite)



Energy
(e.g. oil and gas, timber)



Industry
(e.g. F&B, textile, steel)



Telecommunications
(e.g. Information and Communications Technology, ICT)



Strategic Areas
(e.g. defence, Jabodetabek area, Sunda Straits area)



Tourism
(e.g. transportation equipment, shipping)



Marine
(e.g. fishery)

Pioneer Industries²

The Ministry of Finance (MOF) defines Pioneer Industries as sectors focusing on new technologies, producing value-added products and having a strategic value for Indonesia. Investments projects in Pioneer Industries can be granted financial incentives. The list of Pioneer Industries is as follows:



Agricultural processing



Machinery and Robotics manufacturing



Electronics parts manufacturing



Transport vehicles manufacturing



Energy and Metals



Chemicals & Pharmaceuticals



Digital economy



Economic infrastructure

For more information on Pioneer Industries, please refer to the following MOF publication (www.foresight-id.com/wp-content/uploads/2018/12/MOF-150-PMK-010-Year-2018.pdf).

II. Business Activities that Foreign Participation may be Prohibited or Restricted From³

The Investment Law, enacted in 2007, regulates Foreign Direct Investment (FDI) in Indonesia. Attached to the law is the Negative Investment List (Daftar Negatif Investasi, DNI) which stipulates business activities that are prohibited or restricted for foreign investors. The DNI provides three lists of business areas that are closed or conditionally open:

1. Business areas that are closed to both domestic and foreign investments;
2. Business areas that are reserved for or subject to partnership with local micro, small, medium-sized enterprises (SMEs) and cooperatives; and
3. Business areas that are open to foreign investments under certain conditions.

The following tables contain some examples of the current DNI and are non-exhaustive.

List I: Business Areas that are Closed to Both Domestic and Foreign Investments

Sector	Business Area
Industry	<ul style="list-style-type: none"> • Alcoholic beverages (e.g. liquor, wine or malt beverages) • Chemical (e.g pesticide, industrial chemicals, ozone depleting substances, Chloral alkali making industry or chemical weapons)
Transportation	<ul style="list-style-type: none"> • Motor vehicles testing • Operation of land transportation terminals for passenger • Provision of air navigation services • Telecommunications aid for ship navigation
Communication and Information	<ul style="list-style-type: none"> • Management and operation of radio frequency spectrum and satellite orbit monitoring stations
Others	<ul style="list-style-type: none"> • Agriculture/forestry/fishery/marine affairs activities (e.g. hunting or harvesting endangered species or utilization of sea corals for jewellery) • Education and culture (e.g. operation related to public museums) • Tourism (e.g. operation related to gambling and casinos)

8. Types of Industries Encouraged by the Local Government

List II: Business Areas that are Reserved for or Subject to Partnership with Local Micro, Small, Medium-sized Enterprises and Cooperatives

Sector	Business Areas	Conditions
Industry	<ul style="list-style-type: none"> • Specific food processing industry • Garment and fabric • Kitchenware equipment industry • Maintenance and repair of motorcycles 	Reserved for SMEs
	<ul style="list-style-type: none"> • Construction materials • Wooden goods; • Component and spare parts for motors; and • Manufacture of jewellery articles 	Subject to partnerships
Public Works	<ul style="list-style-type: none"> • Construction services • Business services or construction consultancy services 	Reserved for SMEs
Communications and Information	<ul style="list-style-type: none"> • Radio and television community broadcasting agency • Home and building cable installation • Internet cafés 	Reserved for SMEs
Trade	<ul style="list-style-type: none"> • Retail sales through mail order and internet 	Reserved for SMEs
Others	<ul style="list-style-type: none"> • Agriculture/forestry/fishery/marine affairs activities (e.g. beverage plantation, cotton planation) • Tourism (e.g. travel agents, tour guides) 	Reserved for SMEs or partnerships

8. Types of Industries Encouraged by the Local Government

List III: Business Areas that are Open to Foreign Investments Under Certain Conditions

The most common conditions for those businesses are:

- Foreign ownership limitation ranging from 30% to 95% (in some cases investors from ASEAN countries will benefit from a higher limit than other foreign investors);
- Required 100% Indonesian ownership;
- Additional ministerial approvals required; and
- Special licensing requirements.

Sector	Business Areas	Conditions
Industry	• Automobile Maintenance and repair	Maximum foreign capital ownership of 49%
	• Lead smelting	Subject to the recommendation from the Ministry of Environment (MOE) and the Ministry of Industry (MOI)
	• Crumb rubber	Requires specific license from the MOI and regulated sourcing of raw materials
Energy and Mineral Resources	<ul style="list-style-type: none"> • Oil and Gas operations, construction services or supporting services • Power plant related operations 	Different foreign capital ownership limitations
Transportation	<ul style="list-style-type: none"> • Land/sea/multimodal transportation; • Provision of harbor facilities or airport services 	Maximum of 49% foreign capital ownership
	• Freight forwarding services	Maximum of 67% foreign capital ownership
	• Loading and unloading of goods services/cargo handling	Maximum 67% for foreigners, 70% for ASEAN investors
Trade	<ul style="list-style-type: none"> • Jewellery, textile or other specific retail business • Games and toys in stores retail business 	Required 100% domestic capital ownership
Banking and Finance	• Investment finance; venture capital or insurance	Maximum of 80-85% foreign capital ownership

The 2016's DNI is scheduled to be updated in 2019 and should allow full foreign ownership in 25 industries. For further changes and information, please consult your independent legal advisor for updated revisions.

For more details on the DNI, please refer to Regulation 44 (www.indonesia-investments.com/upload/documents/Negative-Investment-List-May-2016-Indonesia-Investments.pdf).

8. Types of Industries Encouraged by the Local Government

Source:

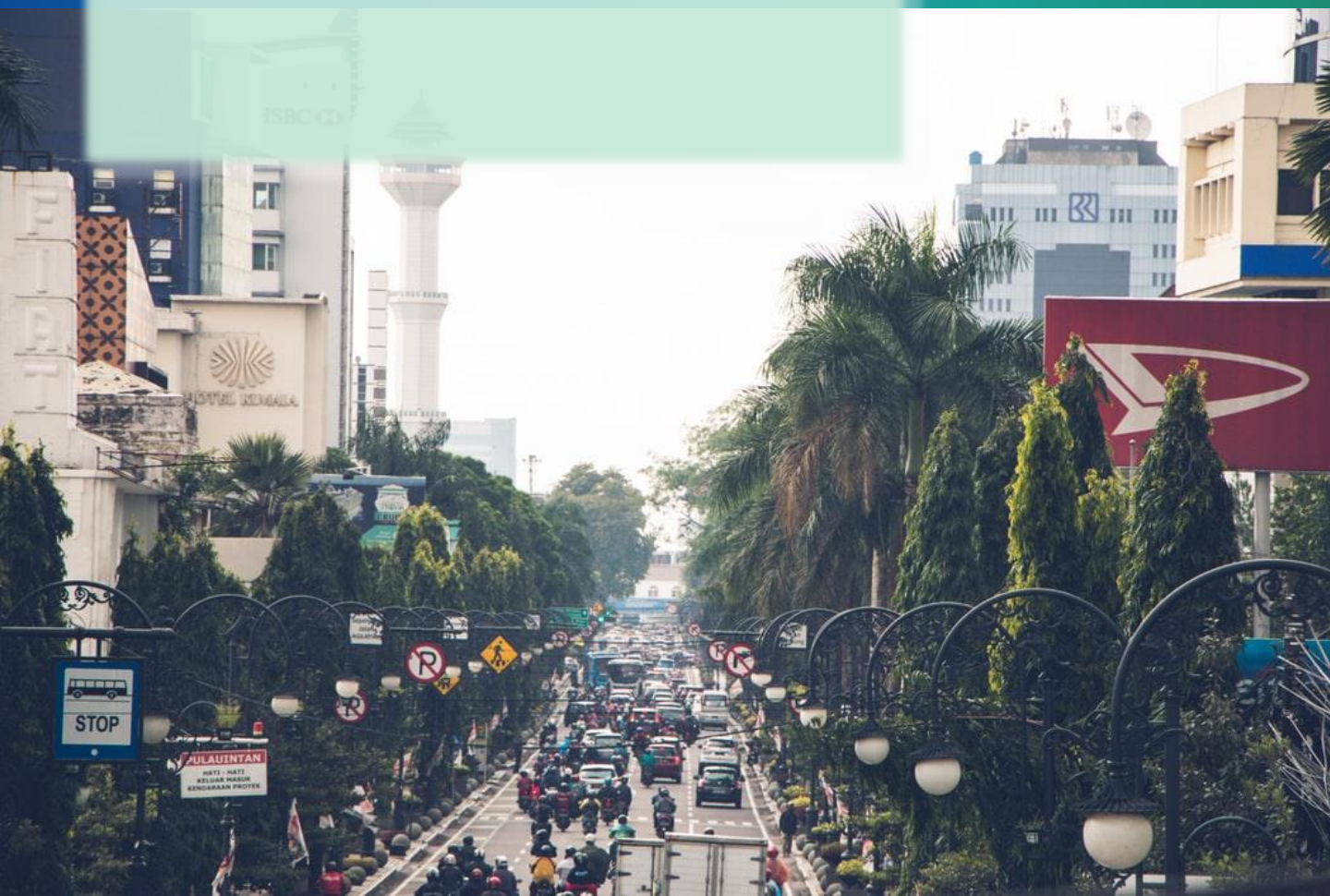
- ¹ *The Ministry of National Development Planning Agency, Master Plan Acceleration and Expansion of Indonesia Economic Development, 2011*
- ² *The Minister of Finance of the Republic of Indonesia, The granting of corporate income tax deduction facility*
- ³ *Badan Koordinasi Penanaman Modal, Presidential Regulation No. 44 of 2016 - Lists Of Business Fields That Are Closed To And Business Fields That Are Open With Conditions To Investment, 2016*

9. Key Government Incentives

Executive Summary

The Pioneer Industry classification lists out several industries such as machinery, electronics or transport vehicles manufacturing, among others, which are granted governmental incentives. Companies investing in the above industries can mainly benefit from Corporate Income Tax (CIT) exemptions.

To facilitate Indonesia's industrial growth and attract Foreign Direct Investment (FDI), the government is developing 12 Special Economic Zones (SEZs), of which six are currently operational. In addition, investors can choose to locate their manufacturing operations in 89 industrial estates across the country. Both SEZs and industrial estates provide multiple financial and non-financial incentives.



9. Key Government Incentives

I. Eligibility on Incentive Programmes For Foreign Investments¹

Pioneer Industries

The Indonesian Investment Coordinating Board (Badan Koordinasi Penanaman Modal, BKPM) is responsible for implementing investment policy and facilitating domestic and foreign investments in the country. As such, it is in charge of granting incentives to the investments projects targeting the Pioneer Industries described in section 8.

General Criteria

To be eligible for incentives, the company must:

- Be incorporated in Indonesia, and commit to a capital investment in a Pioneer Industry of at least IDR 100 billion (around USD 7 million);
- Fulfill the debt to equity ratio stipulated by the Ministry of Finance in Regulation No.150/2018;

Incentives²

A company that invests in Pioneer Industries is eligible for a tax holiday on its corporate income tax (CIT), under the conditions described below.

Category	New Capital Investment Amount	Tax Holiday	Tax Holiday Period
I	Between IDR 0.1 trillion and 0.5 trillion (USD 7 - 36 million)	50%	5 years
II	Between IDR 0.5 trillion and 1 trillion (USD 36 -72 million)	100%	5 years
III	Between IDR 1 trillion and 5 trillion (USD 72 - 360 million)	100%	7 years
IV	Between IDR 5 trillion and 15 trillion (USD 360 - 1,100 million)	100%	10 years
V	Between IDR 15 trillion and 30 trillion (USD 1.1 - 2.1 billion)	100%	15 years
VI	More than IDR 30 trillion (More than 2.1 billion)	100%	20 years

Additional CIT reduction is granted for the following two years after the expiry date of the above tax holiday:

Category I: 25%: CIT reduction

Category II – VI: 50% CIT reduction

II. Scope of Special Economic Zone Schemes and Geographical Location³

Special Economic Zones (SEZs)

The Indonesian government is setting up two different types of Special Economic Zones (SEZs).

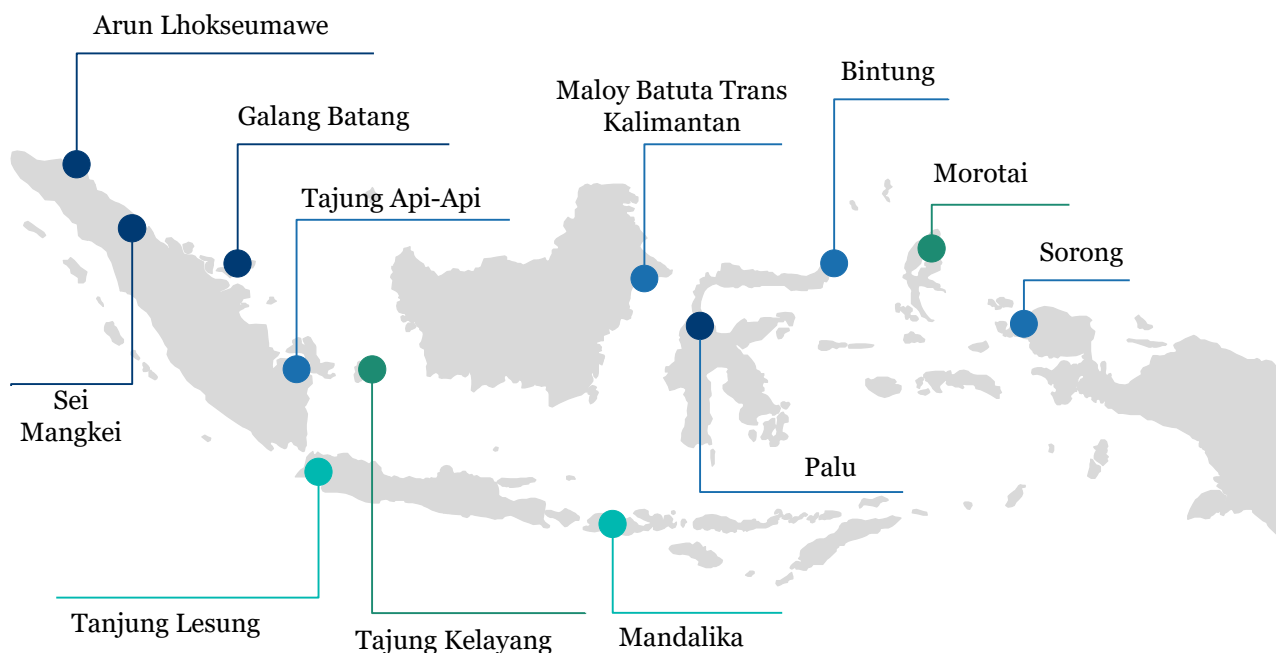
- Industrial SEZs are tailored for value-added manufacturing activities. Each SEZ supports a different industry such as oil and gas, mining, metal processing, agro processing or logistics.
- Tourism SEZ designated for tourism and its related economic activities.

There are currently 12 SEZs across the country, out of which six are operational (four industrial and two tourism). The other six are still under development.

Industrial SEZs generally have access to infrastructure networks such as roads, ports, airports and railways. This allows Indonesia to attract foreign investors in the country and foster the production of value-added products, and develop import and export activities.

SEZ Location in Indonesia

- Industrial SEZ
- Industrial SEZ in Development
- Tourism SEZ
- Tourism SEZ in Development



This map is for illustrative purposes only, and does not imply official endorsement or acceptance of any boundaries and/or names.

Investment Procedures

To initiate construction in SEZs, a company must undergo the following procedures:



After construction is completed, the company may submit the master list of capital goods and fiscal incentives (e.g. corporate income tax, import duty) for commercial operations.

Investment Incentives Available in Special Economic Zones

Businesses operating in the Industrial SEZs are eligible for various tax incentives (non-exhaustive).

Tax Holiday on CIT for Main Activities

Investment Amount	Tax Holiday	Tax Holiday Period
Below IDR 0.5 trillion	Rate decided by the MOF	5 to 15 years
Between IDR 0.5 trillion and 1 trillion	Up to 100%	5 to 15 years
More than IDR 1 trillion	Up to 100%	10 to 25 years

Tax Allowance for Other Activities

1) Reduction of net taxable income up to 30% of the amount invested in the SEZ; 2) Accelerated depreciation or amortisation; 3) Tax-loss can be carried forward up to 10 years.

Other

1) Customs exemptions; 2) Differed import duties; 3) Non financial incentives such as easier licensing.

For more information, please visit the SEZ official website (kek.go.id/fasilitas-dan-insentif)

III. Other Local Government Support Funding Schemes, Including Both Local and Foreign Investments⁴

Industrial Estates

The purpose of industrial estates is to accelerate domestic and foreign direct investments growth, facilitate industrial activities, encourage environmental friendly industrialisation, provide well-established industrial land with adequate supporting infrastructure, and to encourage regional development.

To date, there are 89 industrial estates across the country. There are over 9,950 manufacturing companies operating in the industrial estates.

For more details on Indonesia's industrial estates, please refer to section 7 of this report. For a full list of industrial estates, please refer to Appendix 1.

Incentives^{5,6,7}

The tax incentives available for industrial estates' tenants in Indonesia are similar to the SEZs, including:

- CIT reduction of 10% to 100% for five to 15 years from the start of commercial production;
- Income tax facilities similar to inbound investment incentives under the income tax concessions;
- Value added tax (VAT) exemption on the imports and purchase of machines and equipment used to produce VAT eligible goods; and
- Import duty exemption on the imports of machines and materials used to produce goods or render services, etc.

Moreover, the government also provides non-tax incentives for businesses located in industrial estates. Selected non-fiscal incentives include:

- Exemption on the factory's environmental analysis (if the operators of the industrial estates have already done the analysis); and
- Acceleration and simplification of investment licensing services (for more details, please refer to section 7 of this report).

For more details on tax and non-tax incentives, please consult the local tax authorities and the operators of individual industrial estates.

Source:

¹ *Incentives, Badan Koordinasi Penanaman Modal*

² *Indonesia releases new tax holidays, Ernst & Young, December 2018*

³ *Special Economic Zones, Republic Of Indonesia National Council For Special Economic Zone*

⁴ *Indonesian Industrial Estates Association*

⁵ *Indonesia Corporate Tax Credits and Incentives, PwC Worldwide Tax Summaries*

⁶ *Indonesia: Regulation to Encourage Investment in Industry, Library of Congress*

⁷ *ASEAN in Focus: Prospects for Production Bases in Indonesia, HKTDC Research, 2017*

10. Environmental Requirements

Executive Summary

In Indonesia, Ministry of the Environment and Forestry (MOEF) is the main body taking the responsibility for environmental protection in Indonesia. The Law on Environmental Protection and Management is the primary environmental law in Indonesia. Any foreign businesses wishing to invest or do business in Indonesia must abide by the Law.

Factories in Indonesia may encounter environmental hurdles or problems, such as historical pollution and license requirements.

There are environmental organisations and agencies in Indonesia that can provide relevant environmental supporting services to those companies requiring assistance.



10. Environmental Requirements

I. Environmental Laws and Regulations in Indonesia

In Indonesia, the Ministry of the Environment and Forestry (MOEF) is the main body responsible for environmental policy and standards enforcement and administration.

Indonesia enacted the Law on Environmental Protection and Management which is the fundamental law regarding the environmental management. The law is enacted based on the consideration that national economic development should be on the basis of sustainable and environmentally friendly principle, and on the fact that decreasing environmental quality has threatened the life of human and other creatures. Climate change is also a concern of this law as rising global warming has caused degraded environmental quality.

A. The Main Environmental Protection Administrations in Indonesia

Ministry of the Environment and Forestry (MOEF)^{2,3,4}

The MOEF is tasked with the following responsibilities :

- Coordinate activities related to environmental management;
- Formulation and implementation of policy in the environmental management area;
- Management over hazardous waste facilities and disposal and issuing waste disposal licenses;
- Compliance monitoring and supervision;
- Inquiry on and investigation of environmental criminal cases; and
- Provide technical guidance.

For the organisational structure of MOEF, several directors under minister of MOEF are separately responsible for pollution control and environmental degradation, waste, hazardous waste, and hazardous substance management, law enforcement and environmental and forests, etc.

In Indonesia, there are also other institution established to deal with specific environmental protection issues. For example Regional Environmental Management Agency is responsible for protecting the environmental on regional level.

B. The Main Environmental Legislation in Indonesia

Law on Environmental Protection and Management⁵

The Law on Environmental Protection and Management is the fundamental law on environmental protection in Indonesia covering the area of planning, exploration, protection, conservation and controlling. The purpose of this law is to increase the environmental quality and create a way of environmentally sustainable development. It stipulates the responsibility of the government to protect the natural resources and control environmental pollution and damage, regulate legal actions and legal relations between persons and/or other legal subjects, and establish the fund system to preserve the environment. It also stipulates that for the activity and business with substantial impact on the environment, an environment impact assessment is required for obtaining the licenses to conduct the corresponding activity and business.

Pollution Control

Environmental pollution and /or damage shall be controlled in the framework of preserving the environmental function. The control over the environmental pollution and/or damage shall cover the aspect of prevention, mitigation and restoration. And the control should be done by the government, regional governments and personnel in charge of businesses and/or activities.

Penalties

Anybody intentionally committing action causing damages to the quality of ambient air, water, sea water, etc., that surpassed standards/criteria shall be subject to imprisonment for three years at the minimum and ten years at the maximum, as well as a fine amounting to three billion rupiah at the minimum and ten billion rupiah at the maximum.

Government Regulation of the Republic Indonesia Regarding Environmental Impact Assessment⁶ Environmental Impact Assessment (AMDAL)

AMDAL is the process of studying the significant impact of a proposed business or activity on the environment, which is required as part of the decision-making process.

In Indonesia, every business and/or activity that may rise to significant environmental impacts must prepare an AMDAL. The AMDAL document is reviewed by an AMDAL appraisal commission and, based on the commission's recommendation, the Minister, Governors or Regents/Mayors decides on the environmental feasibility or infeasibility of the business and/or activity.

Environmental Management and Monitoring Program (UKL-UPL)

Every business and/or activity that is not required to prepare an AMDAL must have an UKL-UPL. Governors or Regents/Mayors are required to stipulate the kinds of businesses and/or activities that must have a UKL-UPL. Businesses and/or activities not required to have either an AMDAL or a UKL-UPL are obliged to prepare a statement of readiness to manage and monitor the environment.

Other Environmental Laws and Regulations

Indonesia has also issued environmental laws such as Law on Rubbish Management, Law on Meteorology, Climatology and Geophysics, Act on the Basic Provisions for the Management of the Living Environment, etc. In addition, emissions and disposal of air and noise pollution, water pollution, soil pollution, wastes and hazardous materials are clearly regulated by the relevant laws, regulations, and standards. There are corresponding penalties for violation of such laws and regulations.

A detailed list of environmental laws and regulations in Indonesia can be found in Appendix 2.

C. Main Environmental Related Joint Announcements and Statements which HK and Mainland China Have Issued with Indonesia

China and the Association of Southeast Asian Nations (ASEAN) have made a series of statements and plans to further enhance the environmental cooperation, such as Joint Statement of China and ASEAN Leaders on Sustainable Development, China-ASEAN Environmental Protection Cooperation Strategy 2016-2020 and so on.

Details of the statements are listed in the following table:

Main Environmental-Related Joint Announcements and Statements^{7,8}

Statements	Impact	Detail
Joint Statement of China and ASEAN Leaders on Sustainable Development	Encourage cooperation in conservation of biodiversity and the environment, in clean production, and in environmental awareness.	Clause 6 & 8
China-ASEAN Environmental Protection Cooperation Strategy 2016-2020	Establish the China-ASEAN Environmental Protection Cooperation Centre to enhance environmental cooperation. It also improves the sharing of knowledge and experiences, and encourages factories to comply with the environmental laws and regulations.	Clause 45, 47, 53, 54

D. The Main Environmental Permits in Indonesia^{9,10}

Indonesia has enacted laws and announced numerous environmental regulations, specifying which environmental permits are required.

Environmental License

Every business or activity with an AMDAL or UKL-UPL requirement is required to hold an environmental license. An environmental license will only be issued by the Minister of Environment/Governor/Regent/Mayor after receiving or reviewing an AMDAL or UKL-UPL recommendation.

Environmental licenses are a pre-condition to the acquisition of activity or business licenses from different Ministries. If an environmental license is revoked, all licenses subsequently obtained as a result of the environmental license, such as any activity or business licenses, will also be revoked.

Wastewater Discharge Permit

In Indonesia, a wastewater discharge permit must be obtained from the MOEF before discharging effluent to the environment, with varying application criteria for different regions.

II. Environmental Situations in Indonesia

A. Hurdles or Problems Encountered and Resolutions

Before Land Acquisition	Pre-construction Period		Operation Period
Historical Pollution Issues	License Requirements		Environmental Pollution Issues
Environmental Due Diligence (EDD) checks for existing soil and groundwater pollution, which can help investors avoid liability for historical pollution	AMDAL/ UKL-UPL	Wastewater Discharge Permit	Each industry has different pollutants, and will require appropriate monitoring and environmental protection equipment.

Before Land Acquisition: Historical Pollution Problems

Soil and groundwater of the targeted land may have been polluted by the previous land users. Companies may be impacted by the environmental risks caused by historical pollution if such issues were not identified or the responsibilities are not clarified.

Resolutions

EDD can help with systematically identifying the environmental risks and responsibilities before corporate investment, acquisitions and mergers, or expansion of the site. An EDD will typically take around two months to complete, but may not be required for every project. Processes as below:



Environmental Due Diligence (EDD)

- Supporting agency selection: Companies may hire a capable third party service to conduct any EDD necessary.
- Phase I Environmental Site Assessment: The EDD provider will conduct a limited environmental, health and safety compliance assessment supporting the due diligence for the industrial transaction.
- Phase II Environmental Site Assessment: Based on the results from Phase I, the EDD provider will conduct the actual sampling, monitoring or testing of the soil, air, groundwater, and building materials, in order to evaluate the potential presence of contaminants in the scope.
- Results: The EDD provider will identify potential significant environmental risks in a report.

EDD Case

SLP Environmental Consultants were appointed to conduct Phase 1 Environmental Due Diligence Assessments for a portfolio of prime beach front land holdings located in South East Bali, Indonesia.

The client was considering the acquisition of the sites and as part of the transaction risk management process required an assessment as to whether there were any potential environmental liabilities associated with the ownership of any of the study sites. The assessments also included an appraisal of the existing infrastructure, utilities and services as well as coastal hazard concerns such as erosion and tsunami risk. As a result, the transaction was completed successfully.

For a list of organisations/agencies providing EDD services in Indonesia, please refer to Section 10.III.A

Pre-construction Period : AMDAL/ UKL-UPL¹¹

Resolutions

According to the Government Regulation of the Republic Indonesia Regarding Environmental Impact Assessment, an AMDAL document must be prepared by a certified AMDAL consultant.

AMDAL Processes



AMDAL

- Supporting agency selection: Hiring a certified third-party consultant to conduct an AMDAL;
- Document compilation: The AMDAL document consists of the Terms of Reference, an Environmental Impact Statement (AMDAL) and an Environmental Management and Monitoring Plan (RKL-RPL) ;
- Submission: The enterprise shall submit the AMDAL to the relevant approving commission for evaluation, which is established at the relevant level of government;
- Review and Approval: The commission will forward its results of evaluation to the MOEF, and the relevant governor or the relevant regent / mayor will issue the final approval. It will take approximately 125 business days including the time needed for public feedback.

Resolutions

There is no specific certification requirements for agencies preparing UKL-UPL.

UKL-UPL Processes



UKL-UPL

- Document compilation: A UKL-UPL has a prescribed form, which includes the activities plan, the environmental impact analysis and the environmental management and monitoring program;
- Submission: The enterprise shall submit the UKL-UPL to the MOEF;
- Review and Approval: The relevant governor or the relevant regent / mayor will issue the final approval, and the process should take about 14 business days. However, the length varies and often takes longer.

Types of projects/activities with AMDAL/ UKL-UPL requirement for the key industries can be found in Appendix 3.

AMDAL/ UKL-UPL Case

In 2006, a mining company acquired a gold and silver mine in Northern Sumatra, Indonesia. This company needed to meet the requirement set out in Indonesian AMDAL framework for the commencement of construction. Therefore the mining company engaged a third-party professional organisation to conduct AMDAL. They collected data from air quality to socio-economic criteria and followed strict processes of public engagement as required by AMDAL. Followed by the submission of the AMDAL and environmental monitoring and management plans, they also submitted Terms of Reference for the project which was reviewed and approved by the relevant authorities. Consequently the AMDAL approved was granted and the construction was commenced on schedule.

For a list of organisations/agencies providing AMDAL/ UKL-UPL services in Indonesia, please refer to Section 10.III.B.

Pre-construction Period: Wastewater Discharge Permit

All factories involved in discharging wastewater into the environment need one wastewater discharge permit, and will not be allowed to operate if the necessary permit is not obtained.

Resolutions



Wastewater Discharge Permit

- The company can either apply themselves or hire a third party to help with obtaining the permit; and
- Related Department: The local Department of Environment.

For a list of local organisations/agencies supporting with wastewater treatment in Indonesia, please refer to Section 10.III.C and D.

Operation Period: Environmental Pollution Problems

During the operation period, companies may face environmental pollution problems resulting from non-compliant environmental management or equipment failure:

- Wastewater: Excessive pollutants in wastewater causing soil or groundwater pollution;
- Air emission: Industrial exhaust emissions that are not in compliance, causing air pollution;
- Hazardous waste disposal: Non-compliant disposal of hazardous wastes leads to soil or groundwater contamination, resulting in subsequent penalties; and
- Noise pollution: Noise pollution caused by the operation of machinery and equipment.

Resolutions



Environmental Monitoring

Pollution Control Department is mainly responsible for the control of environmental pollution problems. In the case of such problems, the following measures can be taken:

- Hiring third party service providers to conduct regular monitoring or to help with disposal of hazardous waste;
- Enhancing environmental awareness of related workers;
- Improving relevant equipment in use; and
- Optimizing the manufacturing process.

For a list of organisations/agencies providing environmental monitoring and related services in Indonesia, please refer to Section 10.III.C.

Environmental Pollution Case

In Indonesia, the textile factories of PT Kahatex, PT Insan Sandan Internusa and PT Five Star Textile had been releasing untreated wastewater into Cikijin River. High levels of heavy metals have been found in the area, such as: Chromium, Copper, Arsenic, lead and Cobalt, far exceeding the safety standards.

As a result, the factories' operation licenses were revoked, and the factories had to pay for the remediation.

B. Study on the Key Manufacturing Industries in which HK/Mainland China Companies Have Invested in Indonesia

Potential Environmental Issues ^a	Electronics	Garment & Clothing	Watches & Jewellery	Toys & Games	Hi-tech ^b
Historical Soil Pollution or Groundwater Pollution	✓	✓	✓	✓	✓
Lack of Relevant Environmental Related Licenses	✓	✓	✓	✓	✓
Wastewater Causing Soil or Groundwater Pollution	✓	✓	✓	✓	✓
Industrial Exhaust Emissions Causing Air Pollution	✓	✓	✓	—	—
Disposal of Hazardous Wastes Leading to Soil or Groundwater Contamination	✓	✓	—	✓	—
Noise Pollution Caused by the Operation of Machinery and Equipment	✓	✓	✓	✓	—

“✓” indicates that the factory may face the environmental issues in the industry.

“—” indicates that the factory is less likely to face the environmental issues in the industry.

Note:

- “Environmental issue” indicates any environment related problems factories may have faced during the pre-approval period, construction period and operation period.
- Hi-tech in this table mainly includes industries producing electronic components, and components and accessories used for new power generators and renewable generators, etc.

C. Comparison of Industrial Effluent/ Emission Standards Between Indonesia and Mainland China

Please refer to the below legend for the understanding of all the comparison tables in this section.

For the Mainland China and Indonesia standards (except for electronic industry and textile industry), values in brackets refers to the limitation of effluent discharged into which refers to the water sources serving tap water supply. Besides, the limitation also applies for the wastewater in which the BOD content is less than 1,500 mg/L and COD less than 3,000 mg/L before treated discharged into any other water, and the values outside the brackets refers to the limitation of effluent discharged into water sources not serving tap water supply. Besides, the limitation also applies for the wastewater in which the BOD content is more than 1,500 mg/L and COD more than 3,000 mg/L before treated discharged into any other water.

For the Mainland China and Indonesia standards in the electronic and textile industry, values are the limitation of effluent discharged into environment directly.

↓" indicates the requirement of Mainland China is stricter than Indonesia.

↑" indicates the requirement of Indonesia is stricter than Mainland China.

"=" indicates the requirement of Mainland China is the same as Indonesia.

"-" indicates there is no requirement in the standard.

"N/A" indicates that there is no comparison available due to the lack of a standard from one country.

The following tables list out the common pollutants in various industries. For a complete list, please refer to the Notes section below each table for relevant standards.

All standards listed below are applicable to factories in industrial area. There are no official specialised requirements/standards for non industrial area in Indonesia at the moment, i.e. residential area. If there is plan to build or operate factories in such area, it is recommended to confirm with local environmental department for specific regional requirements.

Electronics (Part 1/5)

The water and air pollutants are the main pollutants in the electronics industry. The following table compares the effluent and emission standards of Indonesia and Mainland China:

Industry	Major Types of Pollution	Pollutants	Limits		Comparison	
			Indonesia ^a	Mainland China ^b		
Electronics	Water Pollutants mg/L (Except pH)	pH	6.0-9.0	6.0-9.0	=	
		Total suspended solids	60	50	↓	
		COD	110	80	↓	
		BOD ₅	50	-	N/A	
		Mercury	0.002	-	N/A	
		Ammonia nitrogen	Special electronic materials	10	10/20 ^c	=/↑
			Electrical units		5	↓
			Printed circuit boards		20	↑
			Semiconductor devices		10	=
			Display device and photoelectron components		5	↓
			Electron terminals products		5	↓
		Total nitrogen	Special electronic materials	-	20/30 ^c	N/A
			Electrical units		15	N/A
			Printed circuit boards		30	N/A
Semiconductor devices	15		N/A			

Electronics (Part 2/5)

Industry	Major Types of Pollution	Pollutants		Limits		Comparison
				Indonesia ^a	Mainland China ^b	
Electronics	Water Pollutants mg/L (Except pH)	Total nitrogen	Display device and photoelectron components	-	20/30 ^c	N/A
			Electron terminals products		15	N/A
		Total phosphorus	Special electronic materials	-	0.5/1.0 ^c	N/A
			Electrical units		0.5	N/A
			Printed circuit boards		1.0	N/A
			Semiconductor devices		1.0	N/A
			Display device and photoelectron components		0.5	N/A
			Electron terminals products		0.5	N/A
			Special electronic materials		-	N/A
		Sulfide	Electrical units	-	-	N/A
			Printed circuit boards		1.0	N/A
			Semiconductor devices		1.0	N/A
			Display device and photoelectron components		-	N/A
			Electron terminals products		-	N/A
			Special electronic materials		0.6	0.5
		Electrical units	0.5	↓		
		Printed circuit boards	0.5	↓		
		Semiconductor devices	0.5	↓		
		Display device and photoelectron components	0.5	↓		
		Electron terminals products	-	N/A		

Electronics (Part 3/5)

Industry	Major Types of Pollution	Pollutants		Limits		Comparison
				Indonesia ^a	Mainland China ^b	
Electronics	Water Pollutants mg/L (Except pH)	Zinc	Special electronic materials	5	1.5	↓
			Electrical units		-	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		1.5	↓
			Display device and photoelectron components		1.5	↓
			Electron terminals products		-	N/A
		Cadmium	Special electronic materials	0.1	0.05	↓
			Electrical units		-	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		0.05	↓
			Display device and photoelectron components		-	N/A
			Electron terminals products		-	N/A
		Total chromium	Special electronic materials	-	1.0	N/A
			Electrical units		-	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		0.5	N/A
			Display device and photoelectron components		-	N/A
			Electron terminals products		-	N/A
		Hexavalent chromium	Special electronic materials	0.1	0.2	↑
			Electrical units		-	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		0.1	↓
			Display device and photoelectron components		-	N/A
			Electron terminals products		-	N/A

Electronics (Part 4/5)

Industry	Major Types of Pollution	Pollutants		Limits		Comparison
				Indonesia ^a	Mainland China ^b	
Electronics	Water Pollutants mg/L (Except pH)	Arsenic	Special electronic materials	-	0.3	N/A
			Electrical units		0.3	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		0.2	N/A
			Display device and photoelectron components		0.2	N/A
			Electron terminals products		-	N/A
		Lead	Special electronic materials	0.1	0.2	↑
			Electrical units		0.1	=
			Printed circuit boards		-	N/A
			Semiconductor devices		0.2	↑
			Display device and photoelectron components		0.2	↑
			Electron terminals products		-	N/A
		Nickel	Special electronic materials	0.5	0.5	=
			Electrical units		0.5	=
			Printed circuit boards		0.5	=
			Semiconductor devices		0.5	=
			Display device and photoelectron components		0.5	=
			Electron terminals products		-	N/A
		Total cyanide	Special electronic materials	-	0.2	N/A
			Electrical units		0.2	N/A
			Printed circuit boards		0.2	N/A
			Semiconductor devices		0.2	N/A
			Display device and photoelectron components		0.2	N/A
			Electron terminals products		-	N/A

Electronics (Part 5/5)

Industry	Major Types of Pollution	Pollutants		Limits		Comparison
				Indonesia ^a	Mainland China ^b	
Electronics	Water Pollutants mg/L (Except pH)	Fluoride	Phenol	0.5	-	N/A
			Special electronic materials	10	10	=
			Electrical units		10	=
			Printed circuit boards		10	=
			Semiconductor devices		10	=
			Display device and photoelectron components		10	=
			Electron terminals products		-	N/A
			Oil and grease	10	-	N/A
	Air pollutants mg/m ³		TVOC	-	150	N/A
			NMHC	-	100	N/A
		Noise Emission dB (A)		Noise limits for boundary of industrial enterprise	-	Daytime 65 Night 55
			Noise level limits in industry area	Day-night 70	-	N/A
		Hazardous Waste	Hazardous wastes are required to be disposed by a qualified third party. For more hazardous waste information, please refer to II.A of this section.			

Note:

- Indonesia Standard: Ministry Regulation No. 5 of 2014 on Industrial Wastewater¹², Ministry Regulation No. 13 of 1995 on Quality Standards for Emission of Stationary Sources¹³, and Ministerial Decree of the Minister of Environment No.48 of 1996 Concerning Noise Limits¹⁴.
- Mainland China Standard: Emission Standard of Pollutants for Electrical Industry¹⁵, and Emission Standard for Industrial Enterprises Noise at Boundary¹⁶.
- The value suitable for enterprises producing electrode foil of aluminum electrolytic capacitor.

Garment & Clothing

The water pollutants and air pollutants were the main pollutants from wool scouring, printing and dyeing, degumming and washing processes in the garment & clothing industry. The following table compares the effluent and emission standards between Indonesia and Mainland China:

Industry	Major Types of Pollution	Pollutants	Limits		Comparison
			Indonesia ^a	Mainland China ^b	
Garment & Clothing	Water Pollutants mg/L (Except pH, and colour)	pH	6.0-9.0	6.0-9.0	=
		Total suspended solids	50	50	=
		COD	150	80	↓
		BOD ₅	60	20	↓
		Colour	-	50 ^c	N/A
		Ammonia nitrogen	8.0	10	↑
		Total nitrogen	-	15	N/A
		Total phosphorus	-	0.5	N/A
		Chlorine dioxide	-	0.5	N/A
		AOX	-	12	N/A
		Sulfide(as S)	0.3	0.5	↑
		Aniline	-	Not be detected	N/A
		Oil and grease	3.0	-	N/A
		Hexavalent chromium	-	Not be detected	N/A
	Total chromium	1.0	-	N/A	
	Phenol	0.5	-	N/A	
	Air Pollutants mg/m ³	NMHC	-	120	N/A
	Noise Emission dB (A)	Noise limits for boundary of industrial enterprise	-	Daytime 65 Night 55	N/A
Noise level limits in industry area		Day-night 70	-	N/A	
Hazardous Waste	Hazardous wastes are required to be disposed by a qualified third party. For more hazardous waste information, please refer to II.A of this section.				

Note:

- Indonesia Standard: Ministry Regulation No. 5 of 2014 on Industrial Wastewater¹², Ministry Regulation No. 13 of 1995 on Quality Standards for Emission of Stationary Sources¹³, and Ministerial Decree of the Minister of Environment No.48 of 1996 Concerning Noise Limits¹⁴.
- Mainland China Standard: Discharge Standard for Water Pollutants in Textile Dyeing and Finishing Industry¹⁷, Integrated Emission Standard of Air Pollutants¹⁸, and Emission Standard for Industrial Enterprises Noise at Boundary¹⁶.
- The method of measuring Colour in China is dilution method, and the value refers to the dilution factor.

Watches & Jewellery

The water pollutants and air pollutants from washing process and air pollutants from polishing process were the main pollutants in the watches & jewellery industry. The following table compares the effluent and emission standards between Indonesia and Mainland China:

Industry	Major Types of Pollution	Pollutants	Limits		Comparison
			Indonesia ^a	Mainland China ^b	
Watches & Jewellery	Water Pollutants mg/L (Except pH)	pH	6.0-9.0 (6.0-9.0)	6.0-9.0 (6.0-9.0)	= (=)
		Total suspended solids	400 (200)	150 (70)	↓ (↓)
		COD	300 (100)	150 (100)	↓ (=)
		BOD ₅	150 (50)	30 (20)	↓ (↓)
		Ammonia nitrogen	10 (5)	25 (15)	↑ (↑)
		Cyanide	0.5 (0.05)	0.5 (0.5)	= (↑)
		Hexavalent chromium	0.5 (0.1)	0.5 (0.5)	= (↑)
		Oil and grease	20 (10)	15 (10)	↓ (=)
		Petroleum	-	10 (5)	N/A
	Air Pollutants mg/m ³	NMHC	-	120	N/A
	Noise Emission dB (A)	Noise limits for boundary of industrial enterprise	-	Daytime 65 Night 55	N/A
		Noise level limits in industry area	Day-night 70	-	N/A
Hazardous Waste	Hazardous wastes are required to be disposed by a qualified third party. For more hazardous waste information, please refer to II.A of this section.				

Note:

- Indonesia Standard: Ministry Regulation No. 5 of 2014 on Industrial Wastewater¹², Ministry Regulation No. 13 of 1995 on Quality Standards for Emission of Stationary Sources¹³, and Ministerial Decree of the Minister of Environment No.48 of 1996 Concerning Noise Limits¹⁴.
- Mainland China Standard: Integrated Wastewater Discharge Standard¹⁵ Integrated Emission Standard of Air Pollutants¹⁸, and Emission Standard for Industrial Enterprises Noise at Boundary¹⁶.

Toys & Games

The water pollutants from the washing process, the air pollutants resulting from production and storage of polymers and the precursors process are the major types of pollution in the toys & games industry. The following table compares the effluent and emission standards between Indonesia and Mainland China:

Industry	Major Types of Pollution	Pollutants	Limits		Comparison
			Indonesia ^a	Mainland China ^b	
Toys & Games	Water Pollutants mg/L (Except pH)	pH	6.0-9.0 (6.0-9.0)	6.0-9.0 (6.0-9.0)	= (=)
		Total suspended solids	400(200)	150 (70)	↓ (↓)
		COD	300(100)	150 (100)	↓ (=)
		BOD ₅	150(50)	30 (20)	↓ (↓)
		Ammonia nitrogen	10(5)	25 (15)	↑ (↑)
		Sulfide	1.0(0.5)	1.0 (1.0)	= (↑)
		Cyanide	0.5(0.05)	0.5 (0.5)	= (↑)
		Hexavalent chromium	0.5(0.1)	0.5 (0.5)	= (↑)
		Oil and grease	20 (10)	15 (10)	↓ (=)
		Petroleum	-	10 (5)	N/A
		Phenol	1.0(0.5)	-	N/A
	Volatile phenols	-	0.5 (0.5)	N/A	
	Air Pollutants mg/m ³	NMHC	-	120	N/A
Noise Emission dB (A)	Noise limits for boundary of industrial enterprise	-	Daytime 65 Night 55	N/A	
	Noise level limits in industry area	Day-night 70	-	N/A	
Hazardous Waste	Hazardous wastes are required to be disposed by a qualified third party. For more hazardous waste information, please refer to II.A of this section.				

Note:

- Indonesia Standard: Ministry Regulation No. 5 of 2014 on Industrial Wastewater¹², Ministry Regulation No. 13 of 1995 on Quality Standards for Emission of Stationary Sources¹³, and Ministerial Decree of the Minister of Environment No.48 of 1996 Concerning Noise Limits¹⁴.
- Mainland China Standard: Integrated Wastewater Discharge Standard¹⁹ Integrated Emission Standard of Air Pollutants¹⁸, and Emission Standard for Industrial Enterprises Noise at Boundary¹⁶.

Hi-tech (Part 1/4)

Water pollutants from the chemical cleaning process are the major type of pollution in the hi-tech industry. The following table compares the effluent and emission standards between Indonesia and Mainland China:

Industry	Major Types of Pollution	Pollutants	Limits		Comparison		
			Indonesia ^a	Mainland China ^b			
Hi-tech	Water Pollutants mg/L (Except pH)	pH	6.0-9.0	6.0-9.0	=		
		Total suspended solids	60	50	↓		
		COD	110	80	↓		
		BOD ₅	50	-	N/A		
		Mercury	0.002	-	N/A		
		Ammonia nitrogen	Special electronic materials	10	10	10/20 ^c	=/↑
			Electrical units			5	↓
			Printed circuit boards			20	↑
			Semiconductor devices			10	=
			Display device and photoelectron components			5	↓
			Electron terminals products			5	↓
		Total nitrogen	Special electronic materials	-	-	20/30 ^c	N/A
			Electrical units			15	N/A
			Printed circuit boards			30	N/A
			Semiconductor devices	15	N/A		
			Display device and photoelectron components	-	-	20/30 ^c	N/A
			Electron terminals products			15	N/A
		Total phosphorus	Special electronic materials	-	-	0.5/1.0 ^c	N/A
			Electrical units			0.5	N/A
			Printed circuit boards			1.0	N/A
			Semiconductor devices			1.0	N/A
			Display device and photoelectron components			0.5	N/A
			Electron terminals products			0.5	N/A
		Sulfide	Special electronic materials	-	-	-	N/A
			Electrical units			-	N/A
			Printed circuit boards			1.0	N/A
			Semiconductor devices			1.0	N/A
			Display device and photoelectron components			-	N/A
			Electron terminals products			-	N/A

Hi-tech (Part 2/4)

Industry	Major Types of Pollution	Pollutants		Limits		Comparison
				Indonesia ^a	Mainland China ^b	
Hi-tech	Water Pollutants mg/L (Except pH)	Copper	Special electronic materials	0.6	0.5	↓
			Electrical units		0.5	↓
			Printed circuit boards		0.5	↓
			Semiconductor devices		0.5	↓
			Display device and photoelectron components		0.5	↓
			Electron terminals products		-	N/A
		Zinc	Special electronic materials	5	1.5	↓
			Electrical units		-	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		1.5	↓
			Display device and photoelectron components		1.5	↓
			Electron terminals products		-	N/A
		Cadmium	Special electronic materials	0.1	0.05	↓
			Electrical units		-	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		0.05	↓
			Display device and photoelectron components		-	N/A
			Electron terminals products		-	N/A
		Total chromium	Special electronic materials	-	1.0	N/A
			Electrical units		-	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		0.5	N/A
			Display device and photoelectron components		-	N/A
			Electron terminals products		-	N/A

Hi-tech (Part 3/4)

Industry	Major Types of Pollution	Pollutants		Limits		Comparison
				Indonesia ^a	Mainland China ^b	
Hi-tech	Water Pollutants mg/L (Except pH)	Hexavalent chromium	Special electronic materials	0.1	0.2	↑
			Electrical units		-	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		0.1	↓
			Display device and photoelectron components		-	N/A
			Electron terminals products		-	N/A
		Arsenic	Special electronic materials	-	0.3	N/A
			Electrical units		0.3	N/A
			Printed circuit boards		-	N/A
			Semiconductor devices		0.2	N/A
			Display device and photoelectron components		0.2	N/A
			Electron terminals products		-	N/A
		Lead	Special electronic materials	0.1	0.2	↑
			Electrical units		0.1	=
			Printed circuit boards		-	N/A
			Semiconductor devices		0.2	↑
			Display device and photoelectron components		0.2	↑
			Electron terminals products		-	N/A
		Nickel	Special electronic materials	0.5	0.5	=
			Electrical units		0.5	=
			Printed circuit boards		0.5	=
			Semiconductor devices		0.5	=
			Display device and photoelectron components		0.5	=
			Electron terminals products		-	N/A

Hi-tech (Part 4/4)

Industry	Major Types of Pollution	Pollutants		Limits		Comparison
				Indonesia ^a	Mainland China ^b	
Hi-tech	Water Pollutants mg/L (Except pH)	Total cyanide	Special electronic materials	-	0.2	N/A
			Electrical units		0.2	N/A
			Printed circuit boards		0.2	N/A
			Semiconductor devices		0.2	N/A
			Display device and photoelectron components		0.2	N/A
			Electron terminals products		-	N/A
		Fluoride	Phenol	0.5	-	N/A
			Special electronic materials	10	10	=
			Electrical units		10	=
			Printed circuit boards		10	=
			Semiconductor devices		10	=
			Display device and photoelectron components		10	=
	Electron terminals products	-	N/A			
	Air pollutants mg/m ³	Oil and grease	10	-	N/A	
		TVOC	-	150	N/A	
		NMHC	-	100	N/A	
	Noise Emission dB (A)	Noise limits for boundary of industrial enterprise	-	Daytime 65 Night 55	N/A	
		Noise level limits in industry area	Day-night 70	-	N/A	
Hazardous Waste	Hazardous wastes are required to be disposed by a qualified third party. For more hazardous waste information, please refer to II.A of this section.					

Note:

- Indonesia Standard: Ministry Regulation No. 5 of 2014 on Industrial Wastewater¹², Ministry Regulation No. 13 of 1995 on Quality Standards for Emission of Stationary Sources¹³, and Ministerial Decree of the Minister of Environment No.48 of 1996 Concerning Noise Limits¹⁴.
- Mainland China Standard: Emission Standard of Pollutants for Electrical Industry¹⁵, and Emission Standard for Industrial Enterprises Noise at Boundary¹⁶.
- The value suitable for enterprises producing electrode foil of aluminum electrolytic capacitor.

Food & Beverage, Chemicals & Plastics

Food & beverage industry is one with some obvious characteristic pollutants, such as COD, total suspended solids, and other organic substances in the wastewater. Indonesia has introduced Regulation of the Ministry Regulation No. 5 of 2014¹², which includes a series of standards covering wastewater for the specific industry such as milk processing industry, sugar industry, etc.

Compared with other industries, chemicals & plastics industry involves more significant potential environmental risk. Ministry Regulation No. 5 of 2014 on Industrial Wastewater¹² of Indonesia also includes a series of standards covering wastewater for the specific industry such as basic oleochemical industry, terephthalate industry, etc.

For both food & beverage and chemicals & plastics industries, Mainland China has established special standards focusing on specific industry as well. Please refer to the corresponding standards according to the specific industry.

General Industries

General industries refer to those industries which do not produce massive or characteristic pollutants (such as logistics & transportation industry, furniture industry, etc.). Such industries should be in compliance with the general environmental standards available in both countries.

The following table compares the general effluent/emission standards of Indonesia and Mainland China:

Industry	Major Types of Pollution	Pollutants	Limits		Comparison
			Indonesia ^a	Mainland China ^b	
General Industries	Water Pollutants mg/L (Except pH)	pH	6.0-9.0 (6.0-9.0)	6.0-9.0 (6.0-9.0)	= (=)
		Total suspended solids	400(200)	150 (70)	↓ (↓)
		COD	300(100)	150 (100)	↓ (=)
		BOD ₅	150(50)	30 (20)	↓ (↓)
		Ammonia nitrogen	10(5.0)	25 (15)	↑ (↑)
		Sulphide	1.0(0.5)	1.0 (1.0)	= (↑)
		Formaldehyde	-	2.0 (1.0)	N/A
	Air Pollutants mg/m ³	NMHC	-	120	N/A
	Noise Emission dB (A)	Noise limits for boundary of industrial enterprise	-	Daytime 65 Night 55	N/A
		Noise level limits in industry area	Day-night 70	-	N/A
Hazardous Waste	Hazardous wastes are required to be disposed by a qualified third party. For more hazardous waste information, please refer to II.A of this section.				

Note:

- Indonesia Standard: Ministry Regulation No. 5 of 2014 on Industrial Wastewater¹², Ministry Regulation No. 13 of 1995 on Quality Standards for Emission of Stationary Sources¹³, and Ministerial Decree of the Minister of Environment No.48 of 1996 Concerning Noise Limits¹⁴.
- Mainland China Standard: Integrated Wastewater Discharge Standard¹⁹ Integrated Emission Standard of Air Pollutants¹⁸, and Emission Standard for Industrial Enterprises Noise at Boundary¹⁶.

III. The Main Local Supporting Organisations / Agencies in Indonesia

Indonesia has mandatory environmental license system. To ensure environmental compliance and to maintain a good relationship with the public, the investor should pay attention to the environment survey, license application and must meeting the local discharge standards in design-build and operation periods.

The following tables list out the main local organisations and agencies providing relevant environmental related supporting services.

A. Environmental Due Diligence Services in Indonesia

Agency/ organisation	Service Coverage	Contact
PwC	<ul style="list-style-type: none"> • Environmental Due Diligence; • Sustainability Strategy; • Environmental and Social Impact Assessment; • Sustainability-related Supply Chain Consulting; and • Governance, Risk & Compliance, etc. 	+62 21 521 2901
SLP Environmental Consulting	<ul style="list-style-type: none"> • Environmental, Health & Safety (EHS) Compliance Auditing; • Environmental Due Diligence; and • Environmental, Social and Governance (ESG) Performance Assessment, etc. 	+ 66 (0) 2168 7016 (ASEAN Headquarters)
PT Hatfield Indonesia	<ul style="list-style-type: none"> • Environmental Due Diligence; • Environmental Management and Monitoring; and • Environmental / Social Impact Assessments, etc. 	+62 251 832 4487

B. AMDAL/UKL-UPL Supporting Services in Indonesia

Agency/ organisation	Service Coverage	Contact
Unilab Perdana	<ul style="list-style-type: none"> • Contamination Testing; • Laboratory Calibration; and • UKL-UPL Monitoring Report, etc. 	+62 31 841 5839
Indonesia Environment & Energy Center	<ul style="list-style-type: none"> • Environmental Impact Assessment; • Environmental Management; • Environmental Engineering & Technology; and • Environmental Rules & Laws, etc. 	+62 21-837 086 79 / 80
ACCURA	<ul style="list-style-type: none"> • AMDAL; • UKL-UPL; and • Enterprise Resource Planning, etc. 	+62 81 1778 8804

C. Environmental Monitoring / Waste Management Services in Indonesia

Agency/ Organisation	Service Coverage	Contact
Ganeca Environmental Services	<ul style="list-style-type: none"> • Air Quality Monitoring; • Mine-Closure Planning; and • wastewater Treatment Plant and Sewerage System Design, etc. 	+62 22 750 1959
ESC	<ul style="list-style-type: none"> • Environmental, Social, Health and Economic Impact Assessments; • Site Remediation & Management; • Waste Management; and • Air Quality & Noise Management, etc. 	+62 21 5790 1344
Unilab Perdana	<ul style="list-style-type: none"> • Contamination Testing; and • Laboratory Calibration, etc. 	+62 31 841 5839

D. Pollutants Treatment Services in Indonesia

Agency/ Organisation	Service Coverage	Contact
Ganeca Environmental Services	<ul style="list-style-type: none"> • Environmental Impact Assessment; • Air Quality Monitoring; • Mine-Closure Planning; and • wastewater Treatment Plant and Sewerage System Design, etc. 	+62 22 750 1959
PT. Swing Indonesia	<ul style="list-style-type: none"> • Design and Construction of Wastewater Treatment Facilities; • Water Treatment Plant; and • Pump Station, etc. 	+62 21 5972 8299 / 8396
Biosystems Group (BSG)	<ul style="list-style-type: none"> • Design and Construction of Water Treatment; • Desalination Equipment Applications; and • Pump Station, etc. 	+62 (0) 361 281 969
PT. Amanaid	<ul style="list-style-type: none"> • Design and Construction of Wastewater Treatment Facilities; • Water Treatment Plant; and • Replacement and Maintenance Service, etc. 	+ 62 361 430 902
SGS Indonesia	<ul style="list-style-type: none"> • Repack of Dangerous Waste and Products; • Waste Reconditioning; and • Waste Care, etc. 	+62 21 29780600

Source:

- ¹ No.32/2009 on Environmental Protection and Management, 2009
- ² Environmental Compliance and Enforcement in Indonesia Rapid Assessment, 2008
- ³ Industrial Pollution Prevention and Control Policies and Law, 2015
- ⁴ Indonesia :Environment & Climate Change Law, Kristianto P.H. and Maurice J.R 2019
- ⁵ No. 32/2009 on Environmental Protection and Management, FAO 2019
- ⁶ Government Regulation of the Republic Indonesia Regarding Environmental Impact Assessment, 1993
- ⁷ Joint Statement of China and ASEAN Leaders on Sustainable Development, 2010
- ⁸ China-ASEAN Environmental Protection Cooperation Strategy 2016-2020, 2017
- ⁹ Legal Guide to Investment in Indonesia, Allens 2014
- ¹⁰ Wastewater Management and Resource Recovery in Indonesia, ARCOWA 2018
- ¹¹ Environmental Licenses, BKPM 2019
- ¹² Ministry Regulation No. 5 of 2014 on Quality of Waste, 2014
- ¹³ Ministry regulation No.41 of 1999 Air Pollution Control, 1999
- ¹⁴ Ministerial Decree of the Minister of Environment No.48 of 1996 Concerning Noise Limits, 1996
- ¹⁵ Emission Standard of Pollutants for Electrical Industry, 2nd Edition
- ¹⁶ Emission Standard for Industrial Enterprises Noise at Boundary, 2008
- ¹⁷ Discharge Standards of Water Pollutants for Dyeing and Finishing of Textile Industry, GB 4287-2012
- ¹⁸ Integrated Emission Standard of Air Pollutants, GB 16297-1996
- ¹⁹ Integrated Wastewater Discharge Standard, GB 8978-1996
- ²⁰ Law No. 18/2008 on Rubbish Management, 2008
- ²¹ Law No.31 of 2009 on Meteorology, Climatology and Geophysics, 2009
- ²² Act No. 4 of 1982 on the Basic Provisions for the Management of the Living Environment, 1982
- ²³ Government Regulation No. 82 of 2001 on Management of Water Quality and Control over Water Pollution, 2001
- ²⁴ Decree of the State Minister of the Environment No. 51 of 2004 Regarding Standard Quality of Seawater, 2004
- ²⁵ Ministry Regulation No. 13 of 1995 on Quality Standards for Emission of Stationary Sources, 1995
- ²⁶ Ministerial Regulation No. 5 of 2012 on the Type, Size and Magnitude of Activities Which Require Environmental Impact Assessment, 2012

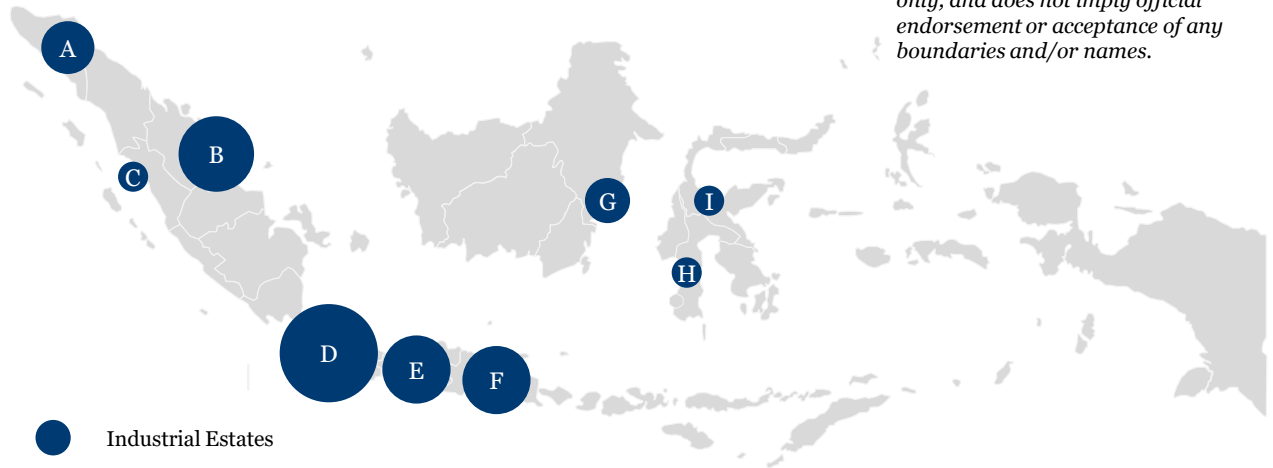
Appendix

- Appendix 1 List of Indonesia's Industrial Estates by Region*
- Appendix 2 List of The Main Environmental Laws/Regulations and Standards in Indonesia*
- Appendix 3 List of Projects for which AMDAL Must be Prepared (Issued with Ministerial Regulation No. 5 of 2012 ("Regulation 5/2012"))*

Appendix 1

List of Indonesia's Industrial Estates by Region (Part 1/4)

This map is for illustrative purposes only, and does not imply official endorsement or acceptance of any boundaries and/or names.



Industrial Estates by Region	Developed WPI	Developing WPI
A. North Sumatra		
<ol style="list-style-type: none"> Kawasan Industri Medan Lampulo Fisheries Industrial Estate Medan Star Industrial Estate Pulahan Seruai Industrial Estate 		✓
B. Riau and Riau Islands		
<ol style="list-style-type: none"> Batamindo Industrial Park Bintan Industrial Park Bintang Industrial Park II Cammo Industrial Park Citra Buana Center Park I Citra Buana Centre Park II Citra Buana Centre Park III Dumai Industrial Park Executive Industrial Park Hijrah Industrial Estate Kabil Integrated Industrial Estate Kawasan Industri Tanjung Buton Latrade Industrial Park Panbil Industrial Estate Puri Industrial Park 2000 Sarana Industrial Point Taiwan International Industrial Estate Tunas Industrial Park Union Industrial Park West Point Maritime Industrial Park 		✓
C. West Sumatra		
<ol style="list-style-type: none"> Padang Industrial Park 		✓

Appendix 1

List of Indonesia's Industrial Estates by Region (Part 2/4)

This map is for illustrative purposes only, and does not imply official endorsement or acceptance of any boundaries and/or names.



Industrial Estates by Region	Developed WPI	Developing WPI
D. Jakarta and West Java		
<ol style="list-style-type: none"> 1. Artha Industrial Hill 2. Bekasi International Industrial Estate 3. Bukit Indah Industrial Park 4. Cibinong Centre Industrial Estate 5. Cilandak Commercial Estate 6. East Jakarta Industrial Park 7. Greenland International Industrial City 8. GT Tech Park @Karawang Industrial Estate 9. Indotaisei Industrial Estate 10. International Warehouse & Industrial Estate 11. Jababeka Industrial Estate-Cikarang 12. Jababeka Industrial Estate-Cilegon 13. Jakarta Industrial Estate Pulogadung 14. Karawang International Industrial City 15. Karawang New Industry City 16. Kawasan Berikat Nusantara 17. Kawasan Industri & Pergudangan Cikupamas 18. Kawasan Industri Gobel 19. Kawasan Industri Lion 20. Kawasan Industri Mitra Karawang 21. Kawasan Industri Rancaekek 22. Kawasan Industri Sentul 23. Kawasan Industri Terpadu Indonesia China 24. Kota Bukit Indah Industrial City 25. Krakatau Industrial Estate Cilegon 26. KSO Delta Silicon 8 Lippo Cikarang Industrial Estate 27. Kujang Cikampek Industrial Estate 28. MGM Cikande Integrated Industrial Area 29. Millenium Industrial Estate 30. MM2100 Industrial Town 	✓	

Appendix 1

List of Indonesia's Industrial Estates by Region (Part 3/4)

This map is for illustrative purposes only, and does not imply official endorsement or acceptance of any boundaries and/or names.

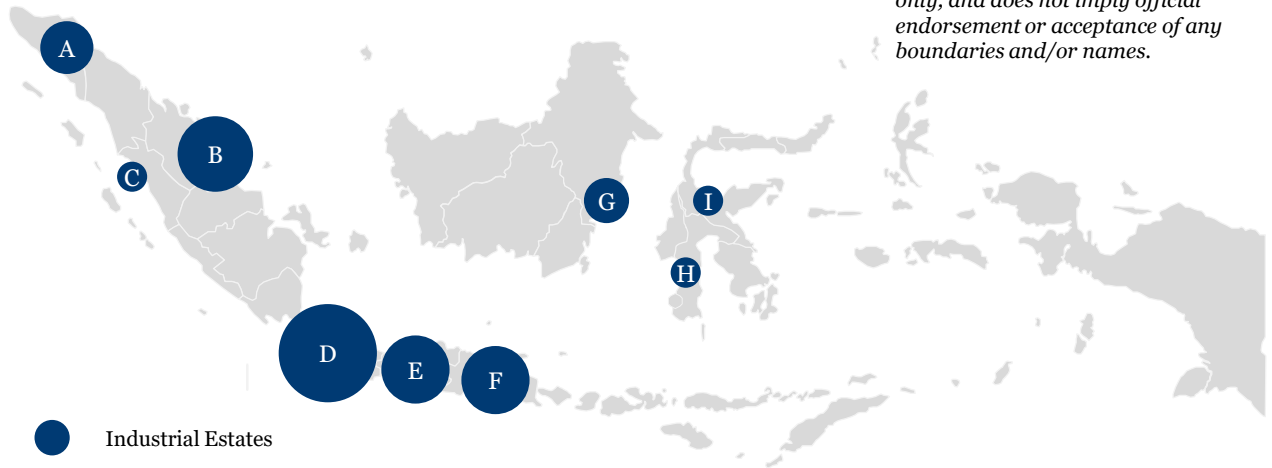


Industrial Estates by Region	Developed WPI	Developing WPI
D. Jakarta and West Java (cont'd)		
31. MM2100 Industrial Town BFIE		
32. Modern Cikande Industrial Estate		
33. Pasar Kemis Industrial Estate		
34. Podomoro Industrial Park	✓	
35. Suryacipta City of Industry		
36. Taman Tekno BSD		
37. Wilmar Integrated Industrial Park		
E. Central Java		
1. Bukit Semarang Baru (BSB) Industrial Park		
2. Candi Industrial Estate		
3. Jatengland Industrial Park Sayung		
4. Kawasan Industri Wijayakusuma		
5. Kawasan Industri Wonogiri	✓	
6. Kendal Industrial Park		
7. LIK Bugangan Baru Semarang		
8. Tanjung Emas Export Processing Zone		
9. Terboyo Industrial Estate		
F. East Java		
1. Java Integrated Industrial & Port Estate		
2. Kawasan Industri Gresik		
3. Kawasan Industri Tuban		
4. Maspion Industrial Estate		
5. Ngoro Industrial Park	✓	
6. Pasuruan Industrial Estate Rembang		
7. Safe & Lock Warehouse and Industrial Complex		
8. Sidoarjo Industrial Estate Berbek		
9. Surabaya Industrial Estate Rungkut		

Appendix 1

List of Indonesia's Industrial Estates by Region (Part 4/4)

This map is for illustrative purposes only, and does not imply official endorsement or acceptance of any boundaries and/or names.



Industrial Estates by Region	Developed WPI	Developing WPI
G. East Kalimantan		
1. Delma Industrial Park		
2. Kaltim Industrial Estate		✓
3. Kariangau Industrial Estate		
4. Muara Wahau Industrial Estate		
H. South Sulawesi		
1. Bantaeng Industrial Park (BIP)		
2. Kawasan Industri Makassar		✓
3. Kawasan Kota Industri Terpadu Takalar		
I. Central Sulawesi		
1. Kawasan Industri Palu		
2. Morowali Industrial Park		✓

Appendix 2

The Main Environmental Laws/Regulations in Indonesia

Ministry of Environment and Forestry	1	Law No. 32/2009 on Environmental Protection and Management ¹
	2	Law No. 18/2008 on Rubbish Management ²⁰
	3	Law No.31 of 2009 on Meteorology, Climatology and Geophysics ²¹
	4	Act No. 4 of 1982 on the Basic Provisions for the Management of the Living Environment ²²

The Main Environmental Ambient Standards in Indonesia

Ambient Standards	1	Government Regulation No. 82 of 2001 Concerning Water Quality Management And Water Quality Control ²³
	2	Decree of the State Minister of the Environment No. 51 of 2004 Regarding Standard Quality of Seawater ²⁴
	3	Ministry regulation No.41 of 1999 Air Pollution Control ¹³

The Main Environmental Effluent Standards in Indonesia

Effluent Standards	1	Ministry Regulation No. 5 of 2014 on Industrial Wastewater ¹²
	2	Ministerial Decree No.48 of 1996 on Noise Limits ¹⁴
	3	Ministry Regulation No. 13 of 1995 on Quality Standards for Emission of Stationary Sources ²⁵

Appendix 3

List of Projects for which AMDAL Must be Prepared (Issued with Ministerial Regulation No. 5 of 2012 (“Regulation 5/2012”))²⁶

Industries	Type of Activities	Scale/Magnitude
All industries	Industrial parks (including integrated industrial parks)	All size
	Other industrial activities using the areas of: <ul style="list-style-type: none"> - Metropolitan - Large city - Medium city - Small city - Rural 	<ul style="list-style-type: none"> - Metropolitan: > 5 ha - Large city: > 10 ha - Medium city: > 15 ha - Small city: > 20 ha - Rural: > 30 ha

Glossary – Section 1 to 9

Operational Requirements

AFTA	ASEAN Free Trade Agreement
AHTN	ASEAN Harmonised Tariff Nomenclature
APA	Advance Pricing Agreement
APE	Exporter Identification Number (Angka Pengenal Ekspor)
API	Importer Identification Number (Angka Pengenal Importir)
ASEAN	Association of Southeast Asian Nations
BCB	Bipartite Cooperation Body
BKPM	Investment Coordinating Board (Badan Koordinasi Penanaman Modal)
BLK	Community Training Centre
BPJS	Badan Penyelenggara Jaminan Sosial
BPJS Kesehatan	National Healthcare Security Programme
BPJS Ketenagakerjaan	National Social Security Programme
BPPT	Agency for the Assessment & Application of Technology (Badan Pengkajian dan Penerapan Teknologi)
BPS	National Statistical Agency (Badan Pusat Statistik)
BRI	Belt and Road Initiative
CEPT	Common Effective Preferential Tariff
CIT	Corporate Income Tax
CLA	Collaborative Labour Agreement
DJP	Directorate General of Taxes (Direktorat Jenderal Pajak)
DKP-TKA	Compensation for the Use of Foreign Manpower (Dana Kompensasi Penggunaan TKA)
DNI	Negative Investment List (Daftar Negatif Investasi)

DTA	Double Taxation Agreement
EC	Economic Corridors
F&B	Food and Beverage
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HKD	Hong Kong Dollar
HKI	The Indonesian Industrial Estates Association (Himpunan Kawasan Industri)
HS	Harmonised System
IAI	Indonesian Institute of Accountants (Ikatan Akuntan Indonesia)
ICE	Indonesia Convention Exhibition
ICT	Information and Communications Technology
IDR	Indonesian Roupie
IFAS	Indonesian Financial Accounting Standards
IP	Intellectual Property
IPC	Indonesian Port Corporations
ISF	Indonesia Science Fund
ITAS	Limited Stay Visa (Izin Tinggal Terbatas)
ITU	International Telecommunication Union
KLIK	Fast-track project construction facility (Fasilitas Kemudahan Investasi Langsung Konstruksi)
KPPIP	Committee for Acceleration of Priority Infrastructure Delivery (Komite Percepatan Penyediaan Infrastruktur Prioritas)
KPPU	Indonesia Competition Commission (Komisi Pengawas Persaingan Usah)
LIPI	The Indonesia Institute of Science (Lembaga Ilmu Pengetahuan Indonesia)
LPI	Logistics Performance Index

LST	Luxury-good Sales Tax
MOE	The Ministry of Environment
MOF	The Ministry of Finance
MOI	The Ministry of Industry
MOM	The Ministry of Manpower
MP3EI	Masterplan for Acceleration and Expansion of Indonesia Economic Development (Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia)
MRT	Mass Railway Transit
NIK	Customs Identification Number (Nomor Identitas Kepabeanan)
NPWP	Taxpayer Identification Number (Nomor Pokok Wajib Pajak)
NSP	National Strategic Projects
PI	Capital Investment Registration (Pendaftaran Investasi)
POLITEKNIK	Polytechnic Institution
PT PMA	Foreign Limited Liability Company (Perseroan Terbatas Penanaman Modal Asing)
R&D	Research and Development
RCEP	Regional Comprehensive Partnership
RDSI	Industrial Relations Dispute Settlement Institution
RISTEKDIKTI	The Ministry of Research, Technology & Higher Education
RO	Representative Office
RPJMN	National Medium Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional)
RPTKA	Foreign Manpower Utilisation Plan (Rencana Penggunaan Tenaga Kerja Asing)
S&T	Science and Technology
SEZ	Special Economic Zone
SMK	Vocational and Pre-professional High School (Sekolah Menengah Kejuruan)
SOE	State-owned Enterprises

STI	Science, Technology and Innovation
STP	Science Techno Parks
TEU	Twenty-foot Equivalent Units
USD	United States Dollar
VAT	Value Added Tax
VET	Vocational Education Training
VITAS	Limited Stay Visa (Visa Tinggal Terbatas)
WPI	Industrial Development Zones (Wilayah Pengembangan Industri)

Glossary – Section 10

Environmental Requirements

AMDAL	Environmental Impact Assessment (Analysis Mengenai Dampak Lingkungan)
ASEAN	Association of Southeast Asian Nations
BOD	Biochemical Oxygen Demand
COD	Chemical Oxygen Demand
EDD	Environmental Due Diligence
ICEL	Indonesian Center for Environmental Law
MOEF	Ministry of the Environment and Forestry
NMHC	Non-methane Hydrocarbon
RKL-RPL	Environmental Management and Monitoring Plan (Rencana Pengelolaan Lingkungan Hidup dan Rencana Pemantauan Lingkungan Hidup)
UKL-UPL	Environmental Management and Monitoring Program (Upaya Pengelolaan Lingkungan Hidup dan Upaya Pemantauan Lingkungan Hidup)

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Acknowledgement of Support and Disclaimer

This project is organised by the Hong Kong Productivity Council and funded by the Trade and Industrial Organisation Support Fund of the Trade and Industry Department, the Government of the Hong Kong Special Administrative Region.

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