Indonesia

COUNTRY STARTER PACK

Asialink Business

pwc

Indonesia at a glance

POPULATION - 2014

252.8 MILLION

GNI PER CAPITA (PPP) - 2014*

US$10,250

INCOME LEVEL

LOWER MIDDLE

*Gross National Income (Purchasing Power Parity) World Bank

GDP GROWTH - 2014

5%

GDP GROWTH FORECAST (IMF)

5.2% (2015), 5.8% (2017), 6% (2020)

CAPITAL CITY

JAKARTA

MAIN RELIGION

ISLAM

CLIMATE

TROPICAL

CURRENCY

Rp

INDONESIAN RUPIAH

FISCAL YEAR

JAN-DEC

CALENDAR YEAR

TIME DIFFERENCE TO JAKARTA (WIB)

3 HOURS BEHIND (AEST)

AUSTRALIAN IMPORTS FROM INDONESIA (2013-14)

A$8.8 BILLION

AUSTRALIAN EXPORTS TO INDONESIA (2013-14)

A$6.9 BILLION

EXCHANGE RATE (AVERAGE 2014)

(IDR/AUD)

A$1 = IDR 10,688.82

SURFACE AREA

1.9 MILLION SQUARE KMS

GDP - 2014

US$888.6 BILLION

POLITICAL STRUCTURE

UNITARY PRESIDENTIAL REPUBLIC

GENERAL BANKING HOURS

(MONDAY TO FRIDAY)

8:00AM TO 3:00PM

08:00 TO 1:00PM (SAT)

INTERNATIONAL DIALLING CODE

+62

STOCK EXCHANGE

INDONESIA STOCK EXCHANGE (IDX)

LANGUAGE

BAHASA INDONESIA

Contents

1. Introduction

1.1 WHY INDONESIA? OPPORTUNITIES FOR AUSTRALIAN BUSINESSES

In an era of rapid change in the world's economic pecking order, Indonesia is an emerging Asian giant. It is the world's third-largest democracy (behind India and the United States), the largest economy in Southeast Asia and the 15th largest economy in the world. In recent years, Indonesia's gross domestic product (GDP) has been growing at more than five per cent annually on the back of:

- Stable democratic government
- Open trade and investment policies
- Increasing domestic consumption
- Abundant natural resources
- A growing skilled workforce.

Indonesia remains at an earlier stage of development than some of its neighbours, which in some respects can make it a more challenging place to do business. For example, its infrastructure is comparatively less developed than other markets in the region, which can add to transport and other business costs. Its legal systems and regulations can also be challenging at times.

But profound changes in Indonesia's economy and society in recent decades have combined to make it an increasingly attractive destination for foreign businesses. And Australia, as a close regional neighbour, is well positioned to take advantage.

What, then, are some of the transformational changes to our immediate north that should have Australian businesses taking notice?

- Indonesia's population has passed 250 million, with about half of its people under age 30
- Indonesia has a rapidly expanding population of middle-class consumers, now numbering about 45 million. They are seeking a modern, more Western lifestyle
- Indonesia's GDP has been growing consistently at more than five per cent a year
- Indonesia's GDP per capita is approaching $4356, bringing big changes to patterns of consumer spending, savings and capital formation
- Indonesia has developed a stable democratic system of government and a market-based economy that is relatively open to foreign investment and participation
- The Indonesian government is committed to significant investment in economic and social infrastructure over coming decades
- In its current *Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI)*, the government vowed to streamline the investment and regulatory environment for sectors such as agribusiness, mining and resources, health, education, training and information and communications technology.

Potential business opportunities in Indonesia abound – and on a wide front. Austrade, the Australian government's overseas trade promotion agency which has a large presence on the ground in Indonesia, has identified a number of key areas and sectors where it believes Australian companies and institutions have the expertise and resources to become more actively and profitably involved. Broadly, Austrade says the main emerging opportunities in Indonesia for Australian businesses are in consumer goods and services, education and training services, knowledge-based industries and technology.

Australian businesses are highly skilled and well-resourced in numerous consumer market segments that are part of the burgeoning Indonesian economy. Among the segments identified for their potential are:

- Design and product development
- New materials, market research and testing
- Retail concepts and online marketing
- Food science and processing
- Cold chain and logistics management
- Consumer finance.

A wide range of Australian service industries are also well placed to benefit from strong growth in consumer spending in Indonesia. Opportunities exist for businesses involved in:

- Higher education
- Vocational education and training
- Financial and healthcare services
- ICT and telecommunications
- Tourism, recreation and leisure.

Education

The rapid expansion of Indonesia's economy is generating large additional demand for education, which Indonesian tertiary institutions have been unable to meet. Demand for more education and training services is to a large degree being determined by skills shortages in key Indonesian industries considered vital to the economy.

The shortage of skills training in Indonesia represents a valuable opportunity for Australian educational institutions. This is aided by the strong perception in Indonesia – and indeed in some other Asian countries – that education abroad, such as in Australian universities, and from foreign education providers in Indonesia, is of a higher quality. Australia is the number one destination for Indonesians studying abroad. However – perhaps indicating the potential for growth in the sector – Indonesia still ranks only eighth among the sources of foreign students in Australia across all sectors (schools, higher education, TAFE /VET), with China and India the biggest sources. A total of 17,151 Indonesian students were enrolled in Australia in 2013, rising to 17,925 in 2014.

Apart from the many Australian institutions that have been taking in Indonesian students, a number of universities have moved to set up campuses in Indonesia and establish partnerships with Indonesian universities. However, competition in the international education sector is intensifying. In response, Australia and its institutions will have to continue working hard to promote their image as providers of high-quality, career-focused education.

Considering doing business in Indonesia?

1. **Do your Research**
   - Speak to industry experts
   - Connect with Australian businesses operating in Indonesia
   - Go to industry events & information seminars
   - Seek professional advice.
2. **Become aware of cultural differences and ways of doing business in Indonesia**
   - Gain an understanding of your customer & local business partners
   - Be flexible & open to difference
   - Understand the local culture and prepare before meeting with local business partners
   - Practise Indonesian business etiquette.
3. **Building relationships is crucial in Indonesian culture, but it can take time**
   - Be patient with developing relationships
   - Follow up and maintain contact with your networks.

Information and communication technologies

Information and communications technology are central to Indonesia's economic development aspirations. Previous expansion in the sector has led, among other achievements, to Indonesia becoming one of the world's biggest mobile phone markets, with more than 230 million individual phones in use.

Indonesia's IT market is currently in the middle of a period of staggering expansion, with analysts projecting annual growth of 18 per cent to 2016. The Indonesian government has said it wants to provide telephone and IT services to all rural areas by 2015. The prospect of continuing rapid expansion in IT and telecommunications equates to a significant field of opportunity for capable and innovative foreign firms.

Food and beverages

Growth in discretionary family income and Western-style consumer tastes across Indonesia presents huge opportunities for provision of value-added food and beverage products from abroad. Australia is particularly strong in food and beverages and already a player in the Indonesian market. With Indonesia's supermarket sector growing at about 30 per cent a year, the opportunities are increasing.

Manufacturing

A rapidly growing middle class and competitive workforce are luring more foreign investors into Indonesia's manufacturing sector. However, the sector has significant challenges, including intense international competition, particularly from China, increasing labour costs, high transportation and logistics costs, difficulties getting credit, and varying levels of transparency and clarity in regulations.

Infrastructure

The Indonesian government has taken a number of initiatives in recent years aimed at increasing the rate of spending on infrastructure. It is now actively promoting Public Private Partnership (PPP) schemes as an instrument to encourage private sector and foreign investment in much-needed infrastructure such as roads, rail and ports. And the government has tried to remove some legal hurdles to investment. Legislation passed in 2011, for example, aims to remove legal obstacles to land acquisition for big infrastructure projects.

One area of infrastructure development that holds great potential is renewable energy. Most power generation in Indonesia is from conventional coal-fired energy sources, with less than 20 per cent from hydroelectric, geothermal and other renewable sources. The government has selected geothermal as one of its major sources of alternative energy for future decades. At present, Indonesia lacks technical expertise in geothermal, and remote locations make it challenging to transmit. All these challenges present significant opportunities for those with expertise.

Opportunities in Indonesia are particularly rich for food and beverage makers as a result of the emergence of a new middle class. And despite Indonesia's predominantly Muslim population, there is plenty of demand for imported premium wine.

"Indonesia is the not the first market that wine producers think of when they seek export markets, but in Jakarta there is a thriving and expanding market for premium Australian wine," says Nathan Gray of AsiaAustralis.

Wines are sold in supermarkets, hypermarkets and wine shops, and premium wines sell for between $65 and $125 a bottle. Imported wines are also stocked by restaurants, hotels and resorts.

Overall, progress in the development of Indonesia's infrastructure has remained slow. In the most recent World Economic Forum Global Competitiveness Index (2013-14), Indonesia ranked 61st out of 148 economies on infrastructure. It will be some time before we know how successful recent initiatives have been in kick-starting a much-needed infrastructure revolution.

Other export opportunities

Austrade has highlighted Australia's strong comparative advantages in areas including supply chain management, workplace health and safety, environmental responsibility and technical expertise.

Investment opportunities

Major opportunities for Australians include high-growth segments such as the automotive industry, consumer durables, healthcare, education, airports and aviation, and tourism and leisure.

1.2 INDONESIA AT A GLANCE

Geography

Indonesia is a sprawling tropical archipelago of approximately 17,500 islands – some of them just hundreds of kilometres from Australia's northern coastline. The biggest and most heavily populated islands are Java, Sumatra, Kalimantan (Borneo) and Sulawesi, along with the tourist islands of Bali, Lombok and Komodo. Java is home to almost 60 per cent of the Indonesian population, including the capital city of Jakarta, which has a population of more than nine million and is by far the biggest business and commercial centre. The largest cities in Indonesia are Jakarta, Surabaya, Bandung, Medan and Semarang.

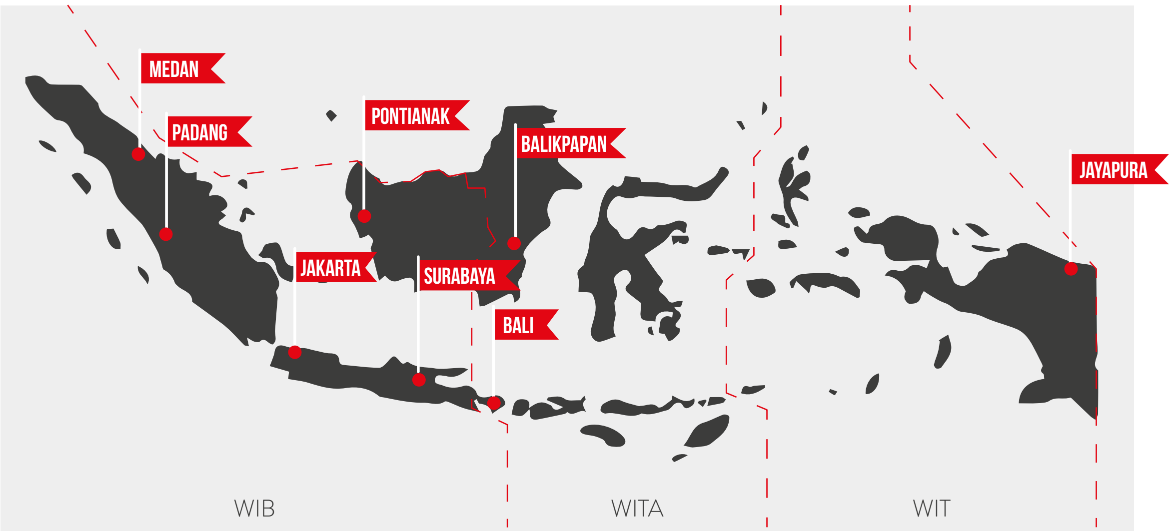
History

Regular contact with Europeans began in the 1500s when Portuguese traders started sourcing spices in Maluku. The Dutch went on to become the dominant trading power in the region after the establishment of the Dutch East India Company in 1602. The Netherlands subsequently assumed colonial power over much of the archipelago for more than 300 years.

Japan occupied Indonesia from 1942 until its surrender at the end of World War II in August, 1945. This led to Indonesia declaring independence on August 17, 1945, and the ascension of Sukarno as the Republic of Indonesia's first President. In 1968, amid increasing political chaos, military chief General Suharto took over as President and began what would be three decades in power. It was a period of substantial economic growth but one also marked by allegations of corruption and suppression of political opponents.

Indonesia was hit hard by the Asian financial crisis of the late 1990s, and Suharto eventually resigned in 1998. More recent Indonesian history has been marked by a strengthening of democracy, with the first direct presidential election held in 2004, and increased autonomy granted to some regions. Economic progress has been maintained despite persisting issues with separatist movements and ethnic and sectarian conflicts in some regions. Indonesia's first directly elected President, Susilo Bambang Yudhoyono, completed a decade in power in 2014. He was succeeded by Joko Widodo, a former governor of Jakarta widely known in Indonesia as Jokowi, who won more than 53 per cent of the vote at the presidential election in July 2014 over his opponent Prabowo Subianto.

TIME ZONE



Indonesia has three time zones:

- Western Indonesia Standard Time (WIB) covers the islands of Sumatra, Java, Madura, Western and Central Kalimantan. They are three hours behind Australian Eastern Standard Time (AEST)
- Central Indonesia Standard Time (WITA) covers Bali, East and South Kalimantan, Sulawesi, Lombok, Sumbawa, Flores and Timor. They are two hours behind AEST
- East Indonesian Standard Time (WIT) covers Maluku and West Papua. They are one hour behind AEST.

Culture

In common with most societies, Indonesia's cultural norms are to a large extent mirrored in its business culture. Hence, knowledge of various aspects of Indonesian culture will provide great insights into the way business is conducted, and can be a distinct advantage when dealing with Indonesians. And despite the great ethnic, religious and other cultural diversity across Indonesia, it is a nation that holds many shared values.

Three distinct elements – the family, social harmony and religion – underpin Indonesia's national culture, and are therefore pervasive in its business culture. Foreign businesses that want to succeed in Indonesia should not just seek to cope with these cultural influences, they should aim to understand and embrace them.

The primary social group in Indonesia is the **family**. The head of the family is generally the eldest male, with the rest of the family hierarchy usually determined by age, and sometimes gender. Being part of an extended family brings both security and responsibilities. Parents expect to be cared for by their children to the end of their lives. And there is also a strong communal ethos in the Indonesian family unit, with an emphasis on shared wealth and possessions.

Indonesians, in common with many other Asian cultures, place a high value on **social harmony and consensus**. Maintaining "face" in public situations is paramount. All parties expect to be treated respectfully. Open displays of aggression or rudeness are considered unacceptable. In situations requiring negotiation or decision-making, it is important to achieve a consensus that maintains face for all parties. In practice this can result in longer, more protracted dealings than some outsiders might be used to. Negotiations may be slowed by indirect expressions of any differences in opinion, and a typical reluctance among Indonesians to use direct words like "no" – even when that's what they mean. *Musyawarah* (the mutual exchange of views avoiding the loss of face) and gotong royong (mutual co-operation) are generally considered essential to the attainment of *mufakat* (consensus).

Religion is an important part of everyday life in Indonesia. About 85 per cent of the population is Muslim, but there are also significant Christian and Hindu populations. The diversity of faith across the archipelago has engendered a culture of religious tolerance, with the state motto, *Bhinneka Tunggal Ika*, translating to "unity in diversity".

The vast majority of Indonesian Muslims observe a moderate form of Islam, with a very small minority advocating stricter observance.

Christianity is the second most common religion in Indonesia, with its followers based mainly in Maluku, Sulawesi and Kalimantan. The Balinese are predominantly Hindu.

Politics and government

The Republic of Indonesia is an independent nation state headed by a President and Vice-President. The President, who may serve a maximum of two consecutive five-year terms, is both head of state and head of government as well as commander-in-chief of the Indonesian armed forces. The President appoints a cabinet of ministers to form the executive arm of government. The philosophy of the state is "Pancasila" and the five principal beliefs are One Supreme God, Humanity, Unity, Democracy, and Social Justice. Indonesia is a republic under the 1945 Constitution, with the highest authority invested in the People's Consultative Assembly (MPR). The MPR comprises two houses, the 560-member People's Representative Council (DPR) and the 132-member Regional Representative Council (DPD). The DPR passes legislation and monitors the executive branch of government. The DPD is a relatively new chamber that deals with regional issues. Current President Joko Widodo's cabinet was sworn in on October 27, 2014, and includes 34 ministers.

Economy

The Indonesian economy is the largest in Southeast Asia and the 15th largest in the world, with annual gross domestic product (GDP) valued at approximately US$ 888.6 billion (2014). Agriculture, industry and services are the three dominant sectors, with more than 85 per cent of the workforce employed in one or the other.

Indonesia's economy has significant points of difference with Asian neighbours like Singapore and Thailand. In particular, Indonesia's economy is largely driven by domestic activity rather than exports, which helped to cushion it from the global crisis of 2008-09.

After a significant setback prompted by the Asian economic crisis of the late 1990s, Indonesia's economy has accelerated over the past 10 years, with GDP growth averaging more than 5.8 per cent a year. 2014 had a slightly lower growth rate of five per cent as a result of slower investment. But GDP growth for the period between 2015 and 2020 is forecast to be consistent between 5.5 to six per cent, making Indonesia on track to join the club of trillion-dollar economies within just a few years.

Strong economic growth is helping the country achieve dramatic reductions in poverty. According to the World Bank, Indonesians living in poverty fell from 23.4 per cent of the population to 11.3 per cent between 1999 and 2014. This coincided with extensive growth in the number of Indonesians considered middle class – now approaching 50 million – and Indonesia's increasing investment in basic services, particularly education.

Before the Asian economic crisis struck in 1997, Indonesia's GDP ranked 22nd in the world at IDR 624,337 billion, which equated to per-capita annual income of approximately $705. The economy contracted in 1998, but resumed growing in 1999 on the back of increased government and consumer spending. Subsequent years of economic growth have elevated Indonesia into the top-20 world economies, earning it membership of the G20 group of nations.

Indonesia has a market-based economy in which the government plays a significant role, including administering prices for some basic goods such as fuel, rice and electricity.

The industrial sector accounts for about 47 per cent of Indonesia's GDP. It comprises major industries including petroleum and natural gas, textiles and apparel, mining, footwear, plywood, rubber and chemical fertilisers. There is also a huge services sector dominated by the tourism, wholesale and retail industries. Services accounts for 39 per cent and agriculture makes up 14 per cent.

Indonesia's main trading partners are other Asian countries – Japan, China, Singapore and South Korea. The United States is also a significant export market. Indonesia's most important export commodities are oil and gas, minerals, crude palm oil, electrical appliances and rubber products.

Direct foreign investment in Indonesia continues to be held back by bureaucratic red tape. In the World Bank's 2015 Doing Business report, Indonesia was ranked 114th out of 185 economies on the measure of ease of doing business. The Indonesian government is trying to foster more foreign investment through programs aimed at reducing corruption, increasing respect for the rule of law, reforming the judiciary and reforming taxation.

Legal system

The Indonesian legal system is derived from Dutch law – a legacy of 350 years of Dutch occupation – intermixed with local customary law. It is a civil rather than common law system, and contains procedures that are quite unlike Australia's.

After declaring independence from the Netherlands in 1945, Indonesia began to modify the legal system that had prevailed during the occupation. This has led to a legal system in which three components co-exist: *adat*, or customary law, Dutch-Roman law and modern Indonesian law.

Like other civil law systems, Indonesia's does not have juries. Instead, decisions on guilt or innocence are made by panels of three judges, comprising a chair (*ketua*) and two other (usually) less senior judges. The judges usually produce a single, joint judgment (*putusan*), and it is very rare for individual judges to dissent from the majority.

Indonesia's justice system has significant challenges – including some conflicting laws and regulations – which can make the enforcement of contracts difficult. The government has made progress in recent years in efforts to improve the system.

Infrastructure

Despite recent efforts to increase investment, Indonesia scores comparatively poorly on global and regional rankings of national infrastructure. Inferior infrastructure results in higher logistics costs for businesses, which in turn reduces Indonesia's competitiveness and attractiveness as an investment destination. It has been estimated that if Indonesia possessed adequate infrastructure, its economy could be growing at between seven and nine per cent annually, instead of the current rate of just under six per cent.

The very low score on air transport comes despite development of an extensive network of airports to ensure that all Indonesia's islands are accessible by either sea or air. Safety, however, remains an issue.

Indonesia has more than 670 airports, of which 185 have paved runways and 13 are international airports, including the country's largest, Soekarno-Hatta in Jakarta. Other international gateways include Juanda in Surabaya, Ngurah Rai in Bali, Kualanamu (previously Polonia) in Medan, Hang Nadim on Batam Island, Minangkabau in Padang, Pattimura in Ambon, Adisutjipto in Yogyakarta, Adisumarmo in Solo, Sepinggan in Balikpapan, Syamsudin Noor in Banjarmasin, Hasanuddin in Makasar, and Sam Ratulangi in Manado.

As an archipelago, Indonesia is dependent on sea transport for much of its domestic transportation as well as for its international trading links. Moreover, the rugged terrain that characterises virtually all of the country has made the development of inland transport infrastructure expensive and difficult. As a consequence, the nation has approximately 1,700 sea ports. The total throughput of Indonesia's port system is over 968 million tonnes. This is split fairly evenly between domestic and international

Infrastructure ratings

2014 World Economic Forum's transport rank out of 144 countries, 1 being the most developed system:

ROAD 64TH	PORT 77TH
AIR 64TH	RAIL 41ST

cargo movements, with over 55 per cent of the total being international and the rest domestic cargo. The scale and character of Indonesia's ports varies widely. They range from major international ports handling tens of millions of tonnes annually to small ports serving local communities that handle a few thousand tonnes.

Road vehicles are the predominant mode of transport in Indonesia. The total classified road network is reportedly more than 477,000 kilometres in length, and worth more than 15 per cent of Indonesia's GDP. But the availability and quality of Indonesia's road infrastructure remain below its regional peers. The Government has increased road infrastructure expenditure to IDR 70 trillion per year ($7.8 billion per year), accounting for 40 per cent of total spending for infrastructure. After a steep decline in the late 1990s, road investment has returned to 1.6 per cent of GDP. However, this level of investment no longer keeps pace with the increasing demand and increasing growth of the past decade.

For a middle-income country, Indonesia also has a comparatively low rate of electrification. Up to 35 per cent of the population, or about 75 million people, do not have access to grid electricity.

Telecommunications is a bright spot on Indonesia's infrastructure scene, playing a big role in the development of the economy in recent years. It has not only increased connectivity across Indonesia, but has helped stimulate other sectors of the economy such as banking, finance, software, hospitality and trade. The main segments of the telecommunications industry are mobile cellular services, fixed line services, internet and broadband services, mobile value-added services and telecommunication infrastructure services. As of 2014, Indonesia was still ranked fourth in the world on numbers of mobile phone subscribers.

Despite the huge advances, telecommunications remains one of a number of priority infrastructure areas being targeted by the Indonesian government to support its ambitious economic growth targets. Other priority areas to encourage further investment include the power and energy sectors, water and sanitation, and roads and transportation.

1.3 INDONESIA AND AUSTRALIA: THE BILATERAL RELATIONSHIP

Indonesia is one of Australia's closest neighbours and an emerging economic powerhouse, with a burgeoning middle class. It is ranked number seven in the top international markets Australian businesses are operating within (Australia's International Business Survey 2014/15). Yet, for all its apparent potential as a market for smart, ambitious Australian businesses to tap into, Indonesia is not among our 10 biggest trading partners.

On the most recent figures available, Australia's annual **two-way-trade** with Indonesia is about $16 billion. That might sound like plenty, but it puts Indonesia in 11th place on Australia's list of trade partners, behind other nations with smaller populations like Malaysia, Singapore and New Zealand.

There are various reasons for why this should be so – the principal one being that Indonesia is in an earlier stage of development than some of its Asian counterparts. Indonesian manufacturing is less evolved, its financial system is less sophisticated and its infrastructure, particularly transport, will require many billions more in investment before it can rival some of the more advanced Asian economies.

Its legal and regulatory environments can also be tricky and frustrating for outsiders. And wider cultural and political issues can come into play. In short, Indonesia can be a more challenging place to do business than some other places in Asia.

But on recent trends and economic projections, it will not be long before Indonesia becomes a much bigger focus for Australian businesses. It is, after all, a democratic nation with a huge population and relatively open market economy on our northern doorstep. Its economy has been growing at more than five per cent a year and is expected to continue expanding at a healthy clip over the medium term. Its consumption-oriented middle-class population is expected to surge to about 135 million by 2030.

Demand is already rising for **consumer goods and services**, particularly in education, finance, healthcare, information and communications technology and tourism – all areas in which Australian businesses are brimming with capability and expertise. In so many sectors and on almost any economic measure, Indonesia has the makings of a stand-out future opportunity for Australian businesses, big and small, and for being a key economic partner for Australia as a whole.

As Indonesia's economy has expanded and diversified in recent years, the possibilities have not gone unnoticed by many. Austrade says more than 250 Australian companies now have a presence in Indonesia. Total investment by Australian companies in Indonesia was $8.1 billion in 2013-14, down from $10.9 billion the previous year.

Australian investment in Indonesia's banking, finance and insurance sectors is already conspicuous. ANZ is one of Indonesia's 10 largest private commercial banks, while the Commonwealth Bank of Australia has operated in Indonesia since 1997, specialising in retail and small business banking and insurance. A number of other prominent Australian financial services groups, including Macquarie and IAG, also operate in Indonesia.

Mining is another big focus for Australian companies in Indonesia. At last count, 38 Australian-listed companies – including BHP Billiton, Newcrest, Leighton and Thiess – were involved in more than 120 mining ventures across Indonesia. In many cases, their presence also entailed active involvement with local communities and corporate social responsibility programs.

Australian companies have also invested heavily in agribusiness, services and Indonesia's expanding infrastructure, clean energy and environmental sectors.

Indonesia is a growing market for Australian exports of goods and services. Australian merchandise exports to Indonesia in 2013-14 grew by 9.2 per cent with a total of more than $5.6 billion. Agricultural products – including wheat, cotton, live animals, meat, horticultural products and sugar – account for close to 40 per cent of the total, followed by resources and energy (20 per cent) and services (20 per cent).

Australian manufactured exports to Indonesia also represent a growing, though still relatively small segment. Our manufactured exports to Indonesia range across dozens of categories, from pharmaceutical products ($34.4 million in 2014) to electric and electronic equipment ($37.3 million).

Conversely, Australians are buying more and more from Indonesia. In 2013-14, we spent $6.2 billion on merchandise imports from Indonesia, with the largest single item being mineral fuels and other energy products. Other significant Australian purchase categories from Indonesia included iron and steel, machinery and furniture.

Two-way trade in services is also considerable – worth just under $3.9 billion a year – although recent growth in this segment has been less spectacular than others. Just under 18,000 Indonesian students attend Australian schools and universities, contributing an estimated $541 million to the Australian economy.

And of course there is tourism, with more than one million Australians visiting Indonesia annually, most of them heading for the big holiday destinations of Bali and Lombok, and a few venturing into lesser-visited parts including Java and Sumatra. But contrary to how things might appear on the main strip in Kuta, Australians came in third after Singaporeans and Malaysians on the list of nationalities visiting Indonesia.

AUSTRALIA'S TRADE AND INVESTMENT RELATIONSHIP WITH INDONESIA

Australian merchandise trade with Indonesia 2014	A$m	Total share*	Growth (yoy)
Major Australian Exports (A$m)	**5,635**	**2.1%**	**9.2%**
Wheat	1,259		
Live animals (excl seafood)	560		
Sugar, molasses & honey	479		
Beef	280		
Major Australian Imports (A$m)	**6,168**	**2.4%**	**5.8%**
Crude petroleum	1,777		
Heating & cooling equipment & parts	539		
Refined petroleum	286		
Specialised machinery & parts	280		
Total trade (exports and imports)	**11,803**	**2.3%**	**7.4%**

Australian services trade with Indonesia 2013-14			
Major Australian service exports (A$m)	**1,287**	**2.2%**	
Education-related travel	541		
Personal travel excl education	284		
Major Australian service imports (A$m)	**2,608**	**3.7%**	
Personal travel excl education	1,987		
Transport	239		

Source: Department of Foreign Affairs and Trade's Indonesia fact sheet 2014
* Total share of Australia's International Trade

In many respects, the bilateral economic relationship between Australia and Indonesia has lagged behind developments in the **political and cultural relationship**. Since 1949, when Australia formally recognised the then recently independent Republic of Indonesia, the political relationship has been through a number of difficult periods, notably in the decades after Indonesia annexed the former Portuguese colony of East Timor in 1975.

The killing of five Australian journalists in East Timor in 1975, and later events that ultimately led to East Timor's secession from Indonesia in 1999, made for constant diplomatic challenges and occasional tensions in relations between Canberra and Jakarta in the late 20th century. These have continued with more recent controversies over issues like Australian refugee policies, and Australian live cattle exports.

Despite – and in some respects because of – these periodic difficulties, Indonesia has always been close to the top of the list of Australia's most important foreign relationships, well ahead of other countries with which we conduct far more business. The close attention by successive Labor and Coalition governments to nurturing Australia's relationship with Indonesia has continued under the current government, with Tony Abbott making a visit to Jakarta in October 2013 one of his first priorities after becoming Prime Minister. In 2014, Mr Abbott attended the inauguration of new Indonesian President Joko Widodo.

Indonesia is the largest recipient of **Australian development aid** – $605 million in 2014-15. Australia has also pursued closer defence links with Indonesia since 2005 through the Lombok Treaty, and has worked more closely with Indonesia on anti-terrorism measures since the Bali bombings of 2002, in which 88 Australians died, and on tackling people smuggling. Australia is also linked to Indonesia through a number of regional forums and agreements. Both nations are members of the G20, ASEAN Regional Forum and the Australia-New Zealand-ASEAN Free Trade Agreement, which was signed in 2009.

An Indonesia-Australia Closer Economic Partnership Agreement, intended to build upon existing agreements, is currently being negotiated. Indonesia applies most favoured nation status to Australian imports, while Australia applies equivalent concessions through its developing country tariff rate.

With all this work over many years by both Australia and Indonesia to create a lush environment for bilateral trade and investment, and given the proximity of our land masses, it cannot be too long before Indonesia climbs further up the rankings of places where Australians conduct business.

2. Getting started in Indonesia

Now that you have decided to launch your business in Indonesia, you must carefully plan your first moves. And one of the first things to do before entering any overseas market is research – lots of it. Market knowledge is one of the keys to succeeding in business overseas; inadequate research could be your pathway to failure.

In the case of Indonesia, you will need to become informed on a wide range of subjects, from industrial relations and tax provisions to labour regulations and a host of other variables. You should also take time to become familiar with the culture, language and business practices of Indonesia.

This chapter provides detailed information on how to go about researching the Indonesian market – what to look for and where to find it. This section also includes advice on key considerations and decisions to be made before launching your business venture – choosing a location, hiring interpreters and assessing the potential risks of operating in a foreign environment, and potential business structures.

Indonesia's sometimes challenging business environment compared to Australia's was highlighted in the most recent Australia's International Business Survey (AIBS), with 55 per cent of 2014/15 respondents saying it was more difficult to do business in Indonesia, and 17 per cent stating it was much more difficult. Specific concerns identified by respondents included a lack of information about local culture and business practices, various regulations, customer payment, customs costs and delays, and licences and standards.

2.1 WHAT YOU NEED TO CONSIDER

You should develop an Indonesia strategy before deciding on how to enter the Indonesian market. In particular, it is important to:

- Avoid going into Indonesia cold – get a foot in the door first
- Take care over who you use to help you get started
- Make sure you are directly involved in the setting-up process
- Allow plenty of time for bureaucracy, both filling in forms and waiting for approvals
- Choose a structure based on research specific to your industry and your product.

Location

Companies looking to enter the Indonesian market for the first time face a great number of location options, and the choice of location is becoming increasingly about serving specific niches and less about trying to offer all things to all customers. Thorough research is essential.

Your level of need for skilled workers may also be a consideration in your choice of location. Among the consequences of Indonesia's rapid growth are a high demand for skilled staff and resulting skills shortages across various sectors and regions. In certain industries (including banking, oil and gas) there are restrictions on the employment of expatriates, which can add to the challenge of finding experienced, skilled workers for your business. Thus, it may be vital to choose a location that not only has the required market conditions, but also a ready supply of skilled workers.

In recent years, Indonesia has launched a system of designated special economic zones (SEZ) which offer various administrative incentives such as easier licensing processes, tax concessions and advanced infrastructure to encourage the establishment of businesses and industries. Prioritised industries include manufacturing, maritime, transportation, banking and tourism.

The first SEZ was established between Sumatra and Singapore on one of the world's busiest shipping lanes, and comprises the islands of Batam, Tonton, Setokok, Nipah, Rempang Galang and Galang Baru. Within this SEZ is a free trade-zone that was declared in 2009. It includes Batam and the other Riau islands of Bintan and Karimun.

Free-trade zones provide business incentives and advantages relating to trade barriers, tariffs, quotas and bureaucratic requirements. Within free trade zones are bonded zones and industrial estates. Goods may be imported into a bonded zone and then re-exported without payment of tariffs, unless the goods are sent into the regular customs territory of Indonesia. Companies manufacturing in the Batam free trade zone are exempt from import duties, luxury tax and value added tax.

Where should I set up my business?

Factors to consider:

- Are there other Australian companies there? Why did they choose a particular area?
- Can you use an existing Australian relationship there (e.g. sister city)?
- What are the local costs? (i.e. land, labour, utilities)
- Is the local infrastructure reliable (e.g. power supply)?
- What is the quality of the logistics?
- Are there tax incentives or is it within a free trade zone?
- What is the skill level of the local labour force?
- Can you leverage off an existing marketing or distribution network?
- Is it close to your chosen market and suppliers?
- Do you have a good agent/distributor or business partner there?

INDONESIA

consists of six distinct regions across its more than

17,500 ISLANDS

The enormous geographic spread and diversity presents many potential logistical challenges, not least for mining and manufacturing businesses.

Indonesia's extensive oil, gas and mining industries are mainly concentrated in Sumatra, Kalimantan, East Java and West Papua provinces.

BANDUNG

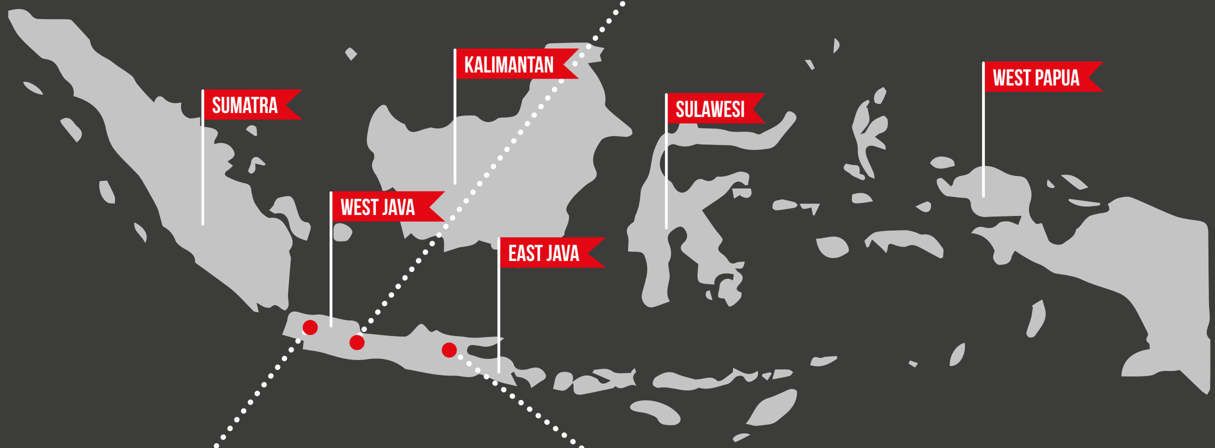
in West Java, is the third-largest city with a

POPULATION OF
2.5 MILLION

THE LOCAL ECONOMY IS DRIVEN BY

MANUFACTURING   TEXTILES   TOURISM

and is also home to a number of IT companies.



The Indonesian capital

JAKARTA

is the nation's biggest commercial centre with a

POPULATION OF
9.6 MILLION

Among its major industries are services,

FINANCE   CONSTRUCTION   TELECOMMUNICATIONS   TRANSPORTATION

as well as a strong manufacturing sector.

SURABAYA

in East Java, is Indonesia's second-largest city, with a

POPULATION OF
3 MILLION

and another **7 MILLION** in outlying areas. It has one of the country's busiest ports.

Using interpreters

Indonesia's official national language is Bahasa Indonesia. But for many rural Indonesians, Bahasa is the second language after their local tongues, which number almost 300. English language skills are actively encouraged in Indonesia, and English is understood by many business people in the cities. However, English proficiency is less common in rural areas.

Interpreters can be useful during business visits, particularly for discussing technical aspects of your operation. If you plan to establish a long-term business in Indonesia, you should consider having your own interpreter or bilingual staff. In practice, it is very common for Australian businesses to bring a local consultant with them whose role is to help build connections and facilitate business meetings, rather than the traditional back and forward interpretation.

There are a range of considerations to take into account if you decide to hire an interpreter:

- You should check the interpreter is professionally trained and experienced
- You need trust and confidence in your interpreter in communications and presentations
- Your interpreter should have an effective technical understanding of your business and approach
- They should be fully briefed before important meetings and, when necessary, provided with a list of terminology well in advance.

Translators: Interpreting and translating are two different professions with totally different skills. Interpreters are for oral interpreting and translators are for written translation. Though many people have both skills, some of them specialise in one discipline. Decide which one you want.

The Australian Embassy in Jakarta provides a list of recommended translators.

Finding an interpreter or translator: The best way to find the right translator or interpreter is to rely on the recommendation of someone you trust who has used them before. Proficiency in Bahasa alone does not make someone a good interpreter. It is not advisable to hire an interpreter or translator straight off the internet or a trade directory unless they have reputable third-party endorsements.

Cost: The cost of hiring an interpreter could vary depending on the nature of the meeting (ranging from informal factory visits to formal business meetings or seminars), the duration of the meeting and whether the meeting is in Jakarta or not. The average cost of hiring an interpreter for an informal meeting within Jakarta would be around $270 for half a day or $380 for a full day.

Is Indonesia a viable option?

Have a detailed financial plan that considers:

- Regular visits to Indonesia
- Product samples, if applicable
- Hiring dedicated staff in Indonesia to assist with start up
- Business advisory services and legal consultants
- The need to update/adjust as you collect more data and knowledge
- Contains scenario planning and risk mitigation approaches.

Financing your Indonesian business venture

Understanding all the costs associated with conducting business in another country helps you make an informed decision on whether your business is ready to enter Indonesia. The main differences compared to operating in Australia may include:

- A longer cash flow cycle, which could increase the pressure on cash flow and working capital
- Being further away from clients, which can increase the risk of non-payment and can make it more difficult to collect debts
- Getting paid in other currencies, which can expose you to foreign exchange risk and affect profit margins
- Greater difficulty accessing finance, as Australian banks are often reluctant to accept overseas assets as security for loans
- A longer timeframe to recover the upfront costs of establishing operations, which can reduce the cash flow and working capital available for your domestic operations.

Adequate funding will be critical to your success – so having a detailed financial plan is crucial. You may be eligible for financing from a variety of sources in Australia, with your options varying according to whether you are exporting, importing or investing. Various types of grants, venture capital and equity sharing deals are increasingly commonplace. However, banks remain the easiest and most approachable source of funding, with most of them offering tailored services. Your existing bank manager may be your best first port of call.

Venture capital: Could be an attractive alternative financing vehicle if you are comfortable with a third party taking an equity stake – and a share of the profits – in your business. As a first step to research the venture capital market, go to the Australian Private Equity and Venture Capital Association Limited website at www.avcal.com.au.

Government assistance: Both federal and state is available to Australian businesses wanting to expand overseas, especially exporters, through a number of grants, loan facilities and reimbursement schemes. These include Export Finance Insurance Corporation Efic – the Australian government's export credit agency, go to www.efic.gov.au; and the Export Market Development Grants (EMDG) scheme, administered by Austrade. Full information on EMDG can be found at www.austrade.gov.au/EMDG.

Other sources of finance you could consider early on include:

- A joint venture arrangement with a trusted partner in Indonesia
- Receiving an equity investment from a sophisticated individual investor or "angel investor".

Risks

Your research into any overseas market should include careful assessment of the risks associated with doing business there. While Asia presents Australian businesses with numerous opportunities for growth, going offshore entails increased risks that need to be identified, managed and reduced as far as possible. Due diligence also has to be actively practised with steps taken to protect intellectual property in the Indonesian context.

Indonesia's business climate can be difficult when compared to other Asian countries. The banking, taxation and legal systems all have features unique to Indonesia, which need to be well understood before launching your business there.

Efic has identified key risks to be considered when doing business in Indonesia. They include:

- Currency risk: The rupiah is volatile, and any adverse movements could affect the profitability or viability of your business
- A weak judicial system which can make it more difficult to enforce contracts
- Prevalent corruption
- Rigidities in infrastructure and labour markets
- High tax and royalty payments
- An uncertain and changing regulatory environment
- Concerns over enforcement of contracts.

While corruption is a significant concern, governance ratings published by the World Bank put Indonesia below the regional average on measures of corruption and the rule of law according to Transparency International, Indonesia was ranked 107th out of 175 countries (one being highly corrupt and 175 least corrupt) in 2014 on the perceived level of public sector corruption. However, this was a drop from 114th place in 2013.

To mitigate the risks of doing business in Indonesia, Australian companies should get professional advice where appropriate and thoroughly investigate the issues in entering the market and establishing business relationships. Many well-established companies will be registered with the Indonesian Chamber of Commerce. Checking if a local company is registered helps to verify if it legally exists. There are many people and organisations you can turn to for help. Choosing the right partners and the right professional advisers is a major step in mitigating risk. Your bankers, lawyers, insurers and accountants should also be able to give you knowledgeable advice about the risks you may face.

Risks associated with bureaucracy and enforcement of contracts is a particular concern for Australians doing business in Indonesia. The World Bank's Doing Business report ranks different countries according to how easy or difficult it is to open and run a small to medium-size business when complying with relevant regulations. In the case of Indonesia, the report highlights the relatively high levels of bureaucracy and red tape in the business environment. For 2015, it has ranked Indonesia 114th out of 189 countries for ease of doing business, although this is an improvement of three places from its 117th in 2014. (See Chapter 5 for more information on laws and regulations).

Common areas of risk

When doing business overseas, Australians must consider multiple areas of risks and associated potential difficulties. These include:

Political risk: how stable is the market politically, economically and socially?

- Government and international enforced trade embargos may affect the flow of goods and services and could affect your delivery of goods and getting paid
- Another potential consideration is whether the country complies with international law requirements, such as on human rights, trade sanctions and recognition of personal property rights.

Legal and regulatory risk: Challenges may arise due to differing legal and regulatory systems. For example:

- Common law systems verses civil law systems, IP issues, taxation and auditing requirements
- Differences in contract law: get tailored advice on contract terms due to differences with contract laws
- Access to courts and dispute resolution mechanisms: some countries may not permit local litigation or place restrictions on the types of claims that can be made.

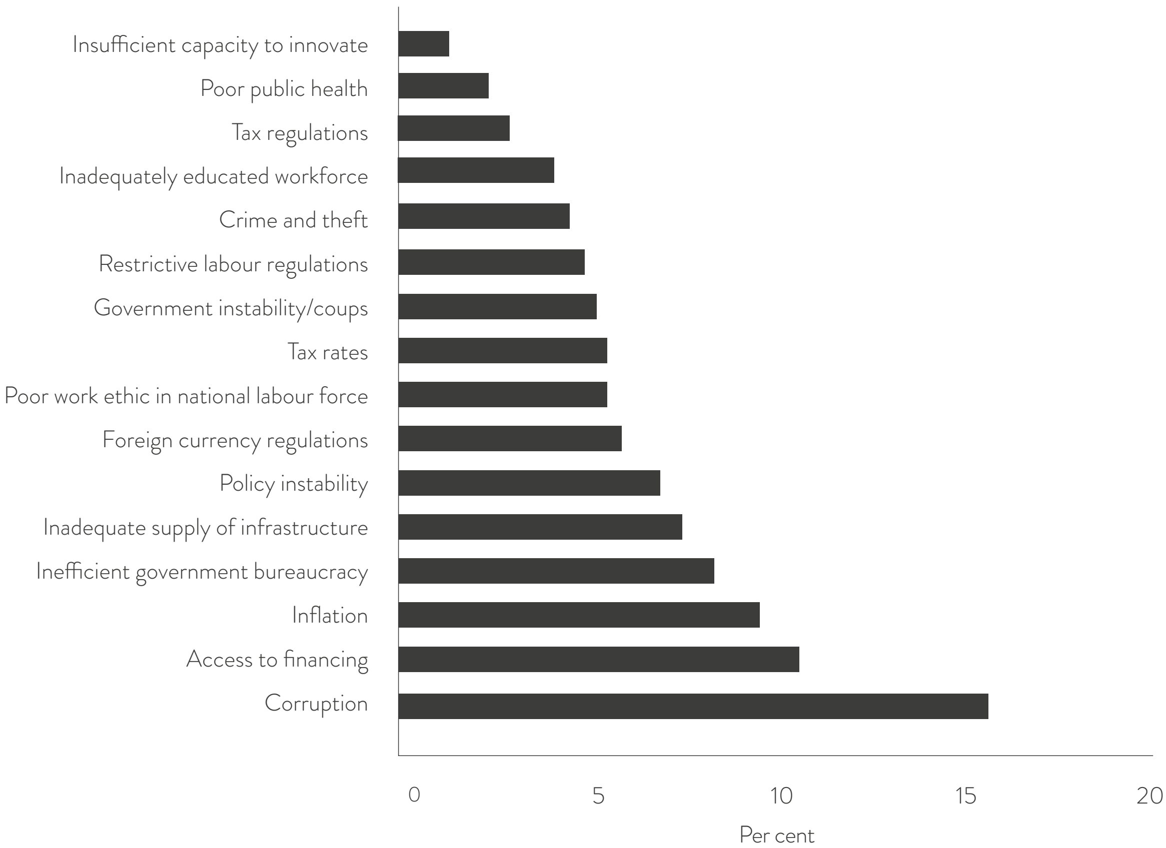
Bribery, graft and corruption risk:

- Bribery, graft and corruption are illegal in most countries. Under Australian law *(Division 70 of the Criminal Code Act 1995)* you can face criminal prosecution in Australia for bribing a public official in another country.

Exchange rate risk: How will adverse movements in exchange rates impact on your profits?

Non-payment risk: What is the likelihood of your suppliers or customers defaulting or becoming insolvent?

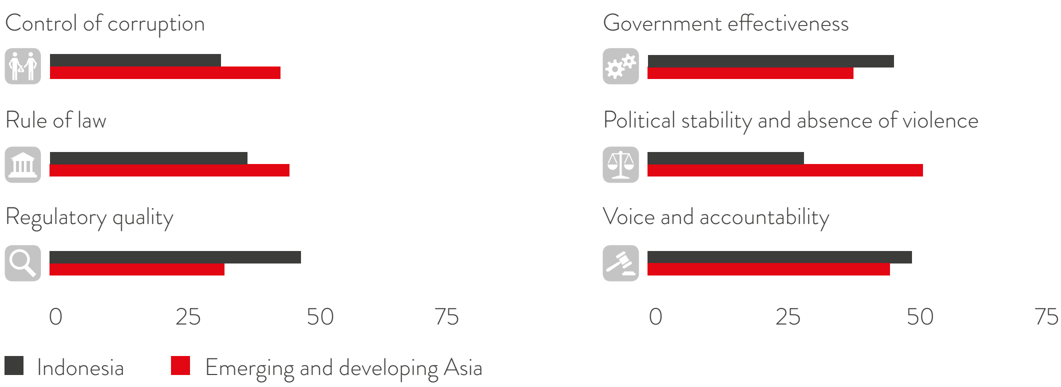
THE MOST PROBLEMATIC FACTORS FOR DOING BUSINESS*



Source: The 2014 World Economic Forum Global Competitiveness Report
*Ranked by respondents per the perceived top five problematic factors in doing business in Indonesia

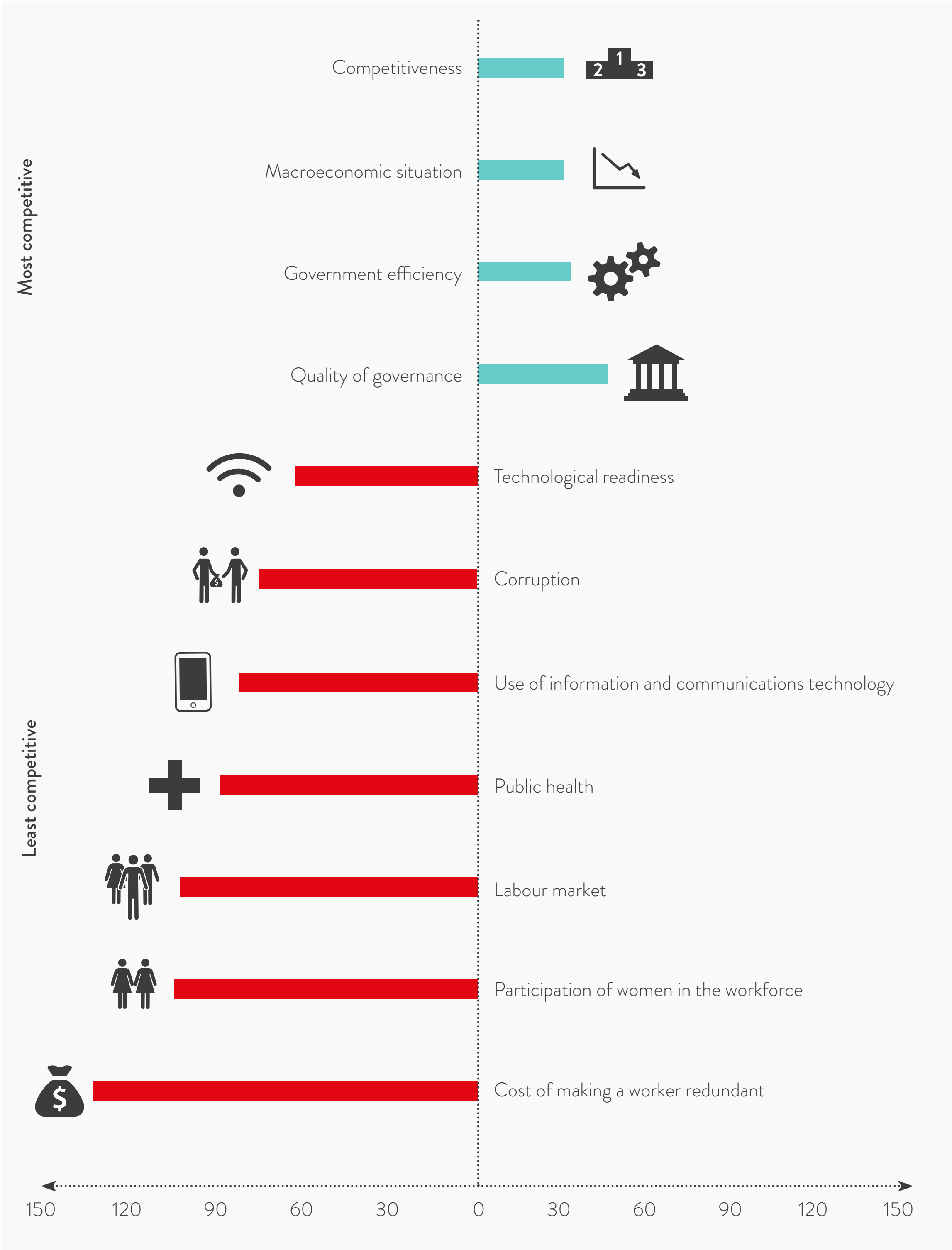
2013 BUSINESS CLIMATE INDICATORS*

GOVERNANCE INDICATORS



Source: World Bank & Efic
*Country percentile rank

INTERNATIONAL COMPARISONS OF COMPETITIVENESS*



Source: The 2014 World Economic Forum Competitiveness Report
*Ranking out of 144 countries

Rank out of 144 countries. 1 being the most competitive.

34TH

Indonesia was ranked number 34 for **competitiveness** in 2014, up four places from 2013.

34TH

The **macroeconomic** situation deteriorated between 2012 and 2013 on the back of a higher deficit, but remains satisfactory (34th, down eight).

36TH

Indonesia ranks a remarkable 36th for **government efficiency.**

53RD

The **quality of public and private governance** is strengthening, with Indonesia up 14 places to 53rd as a result of improvement in 18 of 21 indicators.

77TH

Indonesia ranked 77th for **technological readiness** as a result of differing technology infrastructure across the archipelago.

87TH

Corruption remains prevalent (87th) but has been receding for several years.

94TH

The use of information and **communications technology** by the population at large (94th, down 10).

99TH

Indonesia ranks 99th in **public** health with room for improvement.

110TH

Its **labour market** ranking (110th, down seven) remains the weakest aspect, owing to rigidities in areas such as wage setting and hiring and firing procedures.

112TH

Participation of **women in the workforce** is officially quite low for the Asian region.

139TH

The World Bank estimates that, on average, the **cost associated with making a worker redundant** is equivalent to 58 weeks of salary.

2.2 RESEARCHING INDONESIA

Comprehensive research is crucial when entering the Indonesian market because of its unique features, including:

- Geographical and cultural complexity
- The speed with which the market can change and evolve
- Rapid change in rules, regulations and the focus of enforcement authorities
- A lack of consumer information and vague regulations
- A shortage of publicly available information to assist with understanding processes and rules. Public databases are in short supply.

Your market research should cover a very wide field, from import duties and other regulations to market-specific issues such as distribution channels, market size and growth, competition, demographics and local production. Gathering this information is usually straightforward but it is easy to get overwhelmed by research and all the information that exists. This section aims to condense the main areas to assist you. However, do not limit your Indonesian market investigation to this guide. Some key considerations are:

- When researching Indonesia, you need to be focused on the needs of the Indonesian market, not your own company's needs
- Information available on the internet can only get you so far. You may need to commission your own professional Indonesia-based research and visit the market in person numerous times to develop crucial relationships.

Getting help

A variety of research organisations in Indonesia, including big international professional and accounting firms such as PricewaterhouseCoopers, can be a major source of information. Austrade, which has a significant presence on the ground in Indonesia, provides a range of services for Australian firms, including:

- Information and advice with market entry and business expansion
- Help with location selection
- Access to local contacts and networks
- Identification of specific business opportunities and follow-up.

In addition to Austrade, the Queensland, Victorian and Western Australian state governments have representative offices in Indonesia and may be able to assist with further information. The Australian government's Export Market Development Grant (EMDG) scheme can help meet these costs, and state and territory governments may provide grants too.

"It's a matter of Australian organisations coming in the right way, showing their preparedness to work with other companies, to calibrate their offering according to what organisations in Indonesia are looking for."

This can mean that CEOs have to spend time – 'one, two or three weeks' – developing relationships, assessing business conditions and market opportunities first hand, before making an approach.

Spending time away from your business can be difficult when you're the CEO or owner of a small or mid-size company, but that time away is an investment and it can be an investment well worth making."

Nathan Gray, AsiaAustralis
asiaaustralis.com

Market visits

After doing as much research as possible in Australia, you will need to visit Indonesia to confirm the results of your research, develop a deeper understanding of potential markets, establish relationships and eventually negotiate contracts and agreements. Business visits to Indonesia require patience, understanding and commitment.

Determine where and when to visit

There are no fixed rules about when to visit a market – except that you should do so before entering into any agreements. This includes with prospective agents, distributors or other business partners that could influence your future dealings. Consider meeting with several potential partners first to give you a basis for comparison. It can be helpful to meet with the contact that you believe will be the best fit for your business towards the end of your trip. This will give you time to develop a better understanding of the market so that you can handle questions and discuss strategic options with confidence. Concentrate your effort on only one or two markets at first to ensure a better chance of success.

Plan your trip at least six weeks in advance

To ensure a successful trip, you should arrange in-country assistance for the planning and setting up of your program. This will help you see the right agents and customers who will be briefed and screened for interest and suitability. Take note of holidays and religious festivals that occur at the same time as your planned visit. Also have all your required paperwork completed before departing for Indonesia, including your relevant visa, and take with you (if applicable) any necessary legal documentation such as financial documents and information on regulations. Having company and product information and business cards is also vital for developing business relationships.

Do some background reading

If you have never visited Indonesia and don't know much about the country and its way of life, you should do some research online. News articles and travel books can also provide useful information. Having some broad background knowledge about the area you are visiting will inform and focus your discussions when negotiating with local partners. Guides like this one, and others with a more specific industry or product focus, will also be beneficial.

Have a good website before you go

A website is your corporate brochure. Prospective customers and agents will usually go straight to it to check you out. Therefore the website needs to be informative and attractive – not overloaded with information, but cleanly laid out with interesting graphics. If applicable and possible, use customer or client endorsements and photographs to show your products or services. Make sure that contact details are easy to find and use – preferably a direct email with a photo of the staff member.

Building relationships and making connections

To make the most out of your visit to Indonesia, you need to be well prepared before you arrive. Don't waste valuable time in Indonesia doing what you can do back in Australia. Various organisations have training courses or seminars that can expand your knowledge about doing business in Indonesia. These include Asialink Business, Austrade, Export Council of Australia and the various state and territory governments. Attending such seminars and courses will enable you to establish networks and speak to experts with experience in Indonesia before you enter the market.

Make sure to pre-arrange as many of your meetings as possible and reconfirm them one day in advance. Have addresses for the meetings and information on the people

An easy-to-navigate, well-constructed and up-to-date website is crucial

It allows you to:

- Present your product to your overseas potential customers and business partners in cost-effective ways
- Project the impression of a professional and trustworthy business
- Convey that your business is 'modern' and uses new technology
- Avoid problems with time differences
- Introduce and promote new products while selling directly to customers.

you are meeting with. It is vital to take business cards with you and to follow up with people who have provided you with their cards. It is recommended that, within 48 hours of your appointment, you send an email thanking your contact for the meeting and providing any follow-up information. This will leave a good impression by demonstrating your reliability and professionalism.

Joining a business association is another great way to learn more about what is going on in the local business community and to meet colleagues. In Jakarta, there are several well-established country-specific business associations with memberships of hundreds of people. The Indonesia Australia Business Council (IABC) is one of these and is affiliated with the Indonesian Chamber of Commerce. The IABC also works closely with the Australian-based Australia Indonesia Business Council (AIBC). IABC and AIBC membership is open to all companies and individuals with an interest in business and investment relations between Indonesia and Australia.

2.3 POSSIBLE BUSINESS STRUCTURES

After completing your initial research and scoping of the Indonesian market, you will need to consider the practical elements of setting up there. What type of business structure will you use? Will you appoint a local agency, open a branch office, or set up an Indonesian Limited Liability Company PMA? And what legal and administrative processes must you go through to get established? This section will examine the pros and cons of the various business structures you can choose between, as well as the legal processes required for each.

The AIBS 2014/15 survey found that 41 per cent of Australian businesses operating in Indonesia chose to service the market directly from Australia. The next most popular method was to use agents and distributors – mostly in Indonesia (35 per cent), followed by setting up a foreign sales branch, subsidiary or joint venture (19 per cent).

Business structures

Within Indonesia, there are four primary methods of setting up a business: appoint a local agent or distributor, open a representative office, open a branch or set up an Indonesian PMA. The process of setting up a business can be lengthy, with the potential for the Indonesian government to consider aspects of business operations, such as types of revenue streams, differently to classifications in the Australian business context. Therefore it is vital for Australian businesses to remain adaptable and flexible while being prepared with alternative options if the Indonesian approval process is delayed or denied.

Indonesian Limited Liability Company/ Penanaman Modal Asing (PMA)

Foreigners who want to invest or do business in Indonesia commonly choose to set up an Indonesian Limited Liability Company, commonly known as a PMA company. There must be at least two parties holding shares in a PMA company. Either party can be a legal entity or an individual.

The shareholders must appoint at least one director and at least one commissioner of the PMA company. The director's role is management of the company with the authority to represent it. The commissioner provides advice to the director and supervises business dealings. To start up a PMA, the World Bank states that it takes a minimum of nine procedures and 52.5 days, which is an improvement over the 2008 figure of 76 days. This improvement has been attributed to the Indonesian government's effort to develop a one-stop integrated service and simplification of licensing requirements.

To obtain approval from the Indonesia Investment Coordinating Board (BKPM), a PMA company must have a minimum issued share capital of IDR 2.5 billion and a minimum planned investment of IDR 10 billion per line of business. A higher investment may be required depending on the nature and size of the business. Benefits for new foreign investors in starting a PMA include an exemption from tax on import of machinery and capital goods and imports of raw materials needed for production for two years (BKPM Law No. 5/2013 jo.12/2013) and streamlined access to land in Special Economic Zones.

Representative office

Foreign companies are permitted to establish representative offices in Indonesia. However, compared to PMA companies, representative offices have more restrictions on their activities and cannot conduct commercial business or generate revenue directly in Indonesia. The only permitted activities for representative offices in Indonesia are marketing or promotion activities, market research and review of business opportunities. Due to the lengthy delays in establishing a PMA, Australian businesses can consider establishing a representative office to strengthen their presence and to get to know the market. This is generally done with a long-term view to establishing a PMA.

Representative offices are available for foreign companies engaged in certain sectors which include trading, services, oil and gas, and banking. An exception applies to representative offices of foreign companies engaged in construction services. However, they must be part of a joint operation with a local construction company to qualify.

Branch

A branch office is generally not allowed, except in the banking sector.

Agent or distributor

A foreign company can choose an indirect presence by appointing a local company as an agent or distributor to market and sell its products in Indonesia. The arrangement must be registered with the Ministry of Trade.

Setting up a business

Appoint a local agent or distributor

- Register arrangement with Ministry of Trade
- Agency/distributorship agreement (notarised by a notary public) and statement letter from the Attache of Trade Mission to be submitted

Representative office

- Available in certain sectors (e.g. trading, services, banking, engineering consultant and construction)
- Cannot undertake commercial activities or generate revenue in Indonesia, except for construction sectors
- Allowed for marketing or promotional activities, market research, review business opportunities

Branch

- Require permit from the appropriate government agency
- Generally only available for the banking sector
- Can be used to conduct operational activities (trading or business transactions)

Indonesian Limited Liability Company (PMA)

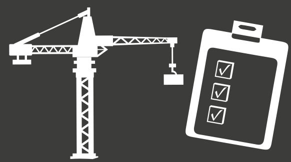
- At least two shareholders who can be local or foreign
- Meet the requirements under the Negative Investment List
- Having investment of at least USD 1.2 million (for trading and services). Higher amount might be applied for other sectors.
- Appoint at least one director and one commissioner.

Nine areas to consider when setting up a business in Indonesia

STARTING OFF

It takes an average of 52.5 days to establish a corporate entity in Indonesia.

DEALING WITH CONSTRUCTION PERMITS



Construction permits take an average of 211 days to acquire and involve 17 procedures.

ELECTRICITY CONNECTION

The costs of electricity connection are far higher in Indonesia than the OECD average.

REGISTERING PROPERTY

It takes 27 days and five procedures to register a property.

GETTING CREDIT

Indonesia is ranked 71st in the world for ease of getting credit.

PROTECTING INVESTORS

Investor protection in Indonesia ranks, a strong, 43 in the world.

PAYING TAXES

There are a total of 65 tax payments to be made each year by businesses, taking an average of 254 hours of company time to deal with.

TRADING ACROSS BORDERS

Exporting a container of goods on average requires four documents, takes 17 days and costs $622.

ENFORCING CONTRACTS AND RESOLVING INSOLVENCY

Enforcing a contract takes an average of 471 days, requires 40 procedures and, on average, costs 115.7 per cent of the value of the claim.

There are some key issues to consider, all of which impact on the ease or otherwise of doing business in Indonesia. The World Bank and International Finance Corporation have identified nine specific areas to be considered when setting up a business in Indonesia, and then compared the situations with other countries.

Starting off: Indonesia is ranked 114th in the world for ease of doing business, underlining the rigorous processes involved in starting up a business. Compared to the OECD average of five procedures to establish a corporate entity, it takes nine procedures in Indonesia, and an average of 52.5 days to complete. Businesses must liaise with the BKPM, State Treasury, the Ministry of Law and Human Rights, Ministry of Trade and the Ministry of Manpower. This is in addition to completing several registrations.

Dealing with construction permits: Construction permits take an average of 211 days to acquire and involve 17 procedures. The Zoning Department must be consulted and several certificates should be acquired before registering with the land and building tax office and the regional office of the Ministry of Trade.

Electricity connection: The costs of connecting electricity are far higher in Indonesia than the OECD average. The primary cost is in obtaining a certificate of Guaranteed Electrical Installation (JIL) and Certificate of Operation Worthiness (SLO) from the Indonesian Electrical Contractors Association (AKLI). Any additional external works, as well as final connection, can be costly. Connecting to the grid in Java is more reliable as it is relatively more developed than the other islands. The process takes on average 91 days and requires five procedures.

Registering property: It takes 27 days and five procedures to register a property, including getting a land certificate examination and paying tax on the acquisition. As with electricity connection, the cost of registering property in Indonesia is far higher than the OECD average.

Getting credit: Indonesia is ranked 71st in the world for ease of getting credit, although there is work being done to improve the situation. The Government hopes that strengthening legal rights of creditors by improving the asset-based lending system and promoting a real property registration system will improve the credit environment.

Protecting investors: Investor protection is relatively strong in Indonesia, with a world ranking of 43. The Indonesian government has continued to recognise and uphold property rights of foreign and domestic investors. The 2007 Investment Law cemented this approach by opening major sectors of the economy to foreign investment.

Paying taxes: Indonesia ranks a low 160 out of 189 countries for ease of paying taxes. There are a total of 65 tax payments to be made each year by businesses, taking an average of 254 hours of company time to deal with. Total taxes amount to 31.4 per cent of profit, including corporate income tax, employer-paid health insurance and social security contributions, capital gains tax, property tax and vehicle registration tax.

Trading across borders: Indonesia is ranked 62 in the world for ease of trading across borders. Indonesia is heavily reliant on global trade, making the cost of importing and exporting goods relatively low. It costs far less to trade across borders than in the rest of East Asia and the Pacific region, although it can take a long time for containers to be cleared for transportation. Exporting a container of goods on average requires four documents, takes 17 days and costs $622, which includes transportation, handling and other official charges. Importing the same container requires eight documents, takes 26 days and costs $705.

Enforcing contracts and resolving insolvency: Indonesia is ranked a low 172 in the world for ease of enforcing contracts. Enforcing a contract takes an average of 471 days, requires 40 procedures and, on average, costs 115.7 per cent of the value of the claim (which includes attorneys, court and enforcement costs). Insolvency cases are also difficult, taking an average of 1.9 years to resolve, with an average recovery rate of just 31.7 cents in the dollar, compared to the OECD average of 70.6 cents.

Another important aspect of setting up a business in Indonesia is **government approvals**. Most foreign investment projects have to be approved by the BKPM. Business licences, formerly granted for 30 years, now remain valid for as long as production or operations exist. The official time schedule for issuing a permanent business licence has increased from seven to 10 days, but almost always takes longer. BKPM can provide exemptions from or reductions in customs duties on most capital equipment and raw materials, as well as import duty discounts for initial stages of a project. Every province in Indonesia also has – in addition to the BKPM – a Regional Investment Coordinating Board (BKPMD) that provides recommendations and permits, including working permits for foreigners.

Steps to establish a wholly foreign-owned manufacturer are:

1. **Choose a location to build a factory; consider using a designated industrial area as they have good infrastructure and licences are easier to get**
2. **To avoid import taxes on factory equipment, apply for an exemption which is commonly known as a masterlist facility**
3. **Get a Permanent Business Licence from the BKPM.**

2.4 MANUFACTURING IN INDONESIA

Indonesia is an increasingly attractive destination for foreign investment in manufacturing thanks to its cost-effective and abundant labour. If you plan to set up a manufacturing company or manufacture products in Indonesia then there are three potential ways you can do so. Most Australian manufacturers establish in Indonesia as either a partnership/joint venture with an Indonesian party or hire sub-contractors. Both of these options generally involve the Indonesian party already having established factories with equipment and staff. Be sure to perform due diligence on local business partners. For more information on due diligence see Chapter 4.4. The third option is starting up a wholly foreign-owned (generally a PMA) manufacturer company. However, this can bring more challenges than the other two options due to starting the business from scratch.

3. Sales and marketing in Indonesia

Once you have chosen the type of business structure you are going to establish in Indonesia and have a better understanding of setting up there, the next step is how to get your product or services into the market. How do you sell your product? Online or through an agent? Do you set up a franchise? What are the labelling requirements? This chapter will examine the various methods of selling in Indonesia, including marketing and packaging requirements to import and sell goods.

3.1 DIRECT SELLING

Direct sales can be very effective in Indonesia, despite the vastness of the country and its complex geographical structures. Growing consumerism and increasing internet usage among the younger generation have fuelled strong growth in direct sales, with the total direct sales market surpassing $1 billion in 2013, up 15 per cent from the previous year.

By utilising direct contact with buyers and end users in Indonesia, direct selling can be a very cost-effective alternative to having your own base in the market, or using agents and distributors. But the do-it-yourself option, though a good way of getting a relatively low-risk feel for Indonesia, is not an easy route to market. The main positives of doing it yourself include:

- Cutting out the middlemen
- Gaining an understanding of the technical needs of buyers and end users, and an ability to customise accordingly
- Having an opportunity to learn the hard way, although this should always be combined with a lot of preparation.

On the negative side, having no physical presence in the market can make it difficult to progress in Indonesia. Some Indonesians are cautious to do business with companies that have no representation in the country.

Successful direct selling strategies used by companies include aiming for high market penetration through direct sales agents covering a diverse geographical area. Leading retailers have also established distribution centres in commercial hubs outside Java – such as Makassar, Manado and Balikpapan – to allow easier distribution to the eastern part of Indonesia.

3.2 FRANCHISING

With Indonesia's rapid economic growth resulting in an increase in demand for international brands, there has been significant growth in the number of foreign companies entering Indonesia through franchising, particularly in the retail, food and beverage, healthcare and services sectors. However, the Indonesian government, in an attempt to increase the participation of local firms in the franchise supply chain, made significant changes to franchising regulations (Franchise Regulation 53) in 2012. Among six key changes, the most concerning for international franchisors is a requirement to use local components for at least 80 per cent of the raw materials, business equipment and merchandise.

3.3 ONLINE SALES

Online sales are an area of focus for the Indonesian government, particularly as a method of foreign investment. However, the government is currently reviewing the regulations for foreign companies operating in online sales. It is strongly recommended that you consult an Indonesian professional if you want to set up an online sales system to distribute your product or services within Indonesia to ensure you meet legal requirements.

Online retail sales in Indonesia remain relatively low compared with other regional countries. The World Bank estimates just 15.8 per cent of the population had access to the internet in 2013. This is considerably lower than Indonesia's regional peers Malaysia (67 per cent), Singapore (73 per cent) and China (45.8 per cent).

In 2013, there were 4.6 million e-customers across Indonesia, representing about eight per cent of internet users and accounting for just 0.1 percent of total Indonesian retail sales. However, the increasing popularity of smartphones and feature phones indicates a high potential for growth in e-commerce.

The number of online shoppers is predicted to soar to 7.4 million in 2015. Although a small number in relation to the population – this figure represents official online selling platforms rather than the popular method of the consumer viewing the product online before purchasing it in person. In an Indonesian online customer survey conducted by the Association of Indonesian Service Providers in 201 2, the main reason given for avoiding purchasing on-line was the absence of customer trust. This included fear of scams (34.6 per cent), inability to see products (21.5 per cent) and high prices (13.8 per cent). Reliable online commerce companies such as Lazada Indonesia, Rakuten, eBay, Sukamart, Zalora Indonesia, Olx, Kaskus and Toko Bagus command only 20 per cent of e-commerce. The remaining 80 per cent is dominated by social commerce – commerce involving the use of online social networks – despite no guarantee of protection from fraud.

An increasing number of companies are beginning to embrace e-commerce platforms and the use of social networks as promotional tools to reach customers. But weaknesses in delivery and payment systems still remain a major barrier to building consumer trust.

3.4 USING AGENTS AND DISTRIBUTORS

Most Australian firms rely on agents or distributors to represent their businesses and sell their products in international markets. There is often confusion about the roles of agents and distributors, so it is important to understand the difference between the two before you enter into any discussions. The definition and responsibilities of agents and distributors can also vary depending on the country or industry, so it is always necessary to confirm their specific roles and responsibilities. The information below is of a general nature. It therefore is important to make sure you have the role of the Indonesian party clearly defined and confirmed in the individual agreement you have with them and not assume they will take on all activities that an agent or distributor may generally perform.

Agent: Acts as a representative of the supplier, but does not take ownership of the goods. An agent is generally paid by the exporter based on a commission of sales value generated. They tend to be based in the export market and often represent numerous service or product lines. They may operate on an exclusive basis, where they are the sole agent for a company's goods or services in that market, or as one of a number of agents.

Distributor: A distributor takes ownership of the goods by buying them, then reselling them to either local retailers or consumers. In some cases, the distributor may sell to other wholesalers who then sell to local retailers or end users.

Distributors may carry complementary and competing lines and usually offer after-sales service. They earn money by adding a margin to products which are generally higher than agent fees. This is to cover larger costs as distributors are usually responsible for marketing and carry inventory.

Choosing an agent or distributor

The most important consideration when choosing an agent or distributor is to ensure that you can establish a close working relationship – you have to be able to build high levels of trust and regular communication.

Before making a final decision, make sure to meet with the potential partner in their own market – this allows you to get to know them better and observe how much they know and their presence in their own market. Also, ask your potential business partner for trade references and consider using a professional credit checking agency to confirm their financial stability.

Knowledge of the market

When assessing the right partner, be sure to consider:

- Do they have good networks and contacts?
- What is their experience in that sector? Do they have good knowledge and have they represented a similar product previously? Can they help with marketing?
- A well-established company with a good network of contacts may not be flexible or open to your ways of business.
- A young, energetic company will tend to be flexible, innovative and trying to prove their worth. The downside is they may have limited experience or contacts.

Why use an agent?	Why use a distributor?
Generally cheaper than a distributor.	You can pass a great degree of risk onto them.
You have greater control over terms of sale and marketing, and choice of customers to deal with.	A distributor has greater incentive to sell your product as they also have to cover the costs of holding stock.
Direct contact between manufacturer and customer.	Only have to monitor distributor's accounts rather than all customers.

Why not use an agent?	Why not use a distributor?
It may involve tax implications (check the relevant laws for that area).	Less control over marketing, terms of sale etc.
Maintaining stock inventory can be costly.	The credit risk is with the distributor rather than with customers.
An agent may be selling products that compete with yours.	Distribution agreements regulated by local competition law.

3.5 MARKETING

Within Indonesia, there are several large regional markets and many more niche and micro-niche markets. The consumer market is scattered over about 17,500 islands, where tastes and preferences vary. Prices are also variable with the mixtures of cultures, population sizes and differing levels of economic development making marketing in Indonesia challenging. A one-size-fits-all marketing strategy will simply not work.

Management consultants McKinsey have identified the following broad consumer trends which have essential implications for marketing across the diverse market segments in Indonesia:

- **Brand preference**: Indonesians have a higher preference for brands than the consumers of other nations when they were at similar development stages, including China. Local brand preference is particularly high, with 60 per cent of Indonesians preferring them, particularly in food and beverage categories.

- **Urban dynamics**: It is crucial to understand the differences and dynamics that exist across not only the two biggest cities on Java – Jakarta and Surabaya – but also clusters of rapidly growing smaller cities across the archipelago.
- **Getting to market**: Indonesia's distribution infrastructure is fragmented geographically, with family-owned and run stores predominating in numerous consumer categories. However, modern retailing is growing and becoming more accepted as new channels emerge.
- **Going digital**: Digital technology is playing an increasingly large role in reaching Indonesia's dispersed and assorted customers. Currently, television advertising and personal recommendations are the main sources of consumer product information.

3.6 LABELLING REQUIREMENTS

It is mandatory to label goods in the national language, Bahasa Indonesia. Exemptions may be granted only if there is difficulty in finding Indonesian words with a similar meaning or if there are no Bahasa Indonesia words to substitute. Approval to omit Bahasa Indonesia labelling must be obtained from the Indonesian Attorney General.

Australian exporters should consult with their importers and local authorities regularly for information on changes. The below information may regularly change therefore it is important to consult and gather further information from the Directorate General of Customs and Excise.

Labels for food products must also include:

- Indication that the product has been registered with the Food and Drug Control Agency and has a product number (ML number) supplied by the agency
- Expiration date
- Complete name and address of the importer
- If the product is halal: provision of a halal certificate from an agency approved by the Indonesian Islamic Council
- Compliance with other specific labelling regulations when colouring agents are used.

Labels for pharmaceutical drugs must additionally show:

- The country of origin
- Nature of the drug's composition
- Quantity and registration number from the Ministry of Health.

Specific production, distribution, labelling, packaging and advertising requirements apply to cosmetics and hygiene products.

How to package goods for Indonesia:

- **Securely in standard export packaging**
- **Manufacturer original packaging is required for: food, beverages, textiles and consumer goods**
- **Labels with type of good and quantity/weight should be on outer part of each package**
- **To prevent deterioration by heat and humidity, suitably treat and pack easily affected goods.**

Special certificates

Clarification of certification with the Australian Quarantine and Inspection Service (AQIS), Meat and Livestock Australia and the Australian Department of Agriculture, should be conducted for all livestock. A halal certificate is required to accompany meat shipments.

A certificate of analysis from the manufacturer is obligatory for imported medicines, with brochures written in Indonesian required to accompany medicine samples for distribution in Indonesia. Patent medicines are only to be sold by retailers to acknowledged and appropriate companies with retailers prohibited from repacking or mixing operations.

Living plants, seeds and other plant materials require a phytosanitary certificate issued by the approved authority in the country of origin, stating that they are free from pests or diseases. In Australia this is usually conducted by AQIS, Department of Agriculture or the relevant state department of agriculture. A health certificate is also required for fruit from the approved authority in the country of origin stating that it is free from fruit fly.

Beerenberg

Anthony Paech, Managing Director

South Australian jam and condiments maker Beerenberg has been selling its jams to Indonesia since 1993. Today Indonesia is Beerenberg's third-largest export market, behind Japan and China. Beerenberg's entry into Indonesia was through its miniature jars of jam sold to five-star hotels. It was already exporting to Singapore, Japan and Hong Kong when it struck an agreement with Jakarta food distributor Masuya Graha Trikencana.

Managing director Anthony Paech says Indonesia was chosen with a specific market in mind: holidaying Australians in Bali. For the small, family-owned business, niche exports make more sense than mass-market brand building. By earmarking Australians in the popular Indonesian resort destination, the Beerenberg brand was already on familiar ground. "We were looking for [export markets] that would work well for us. Australian tourists want a local product they are familiar with, they love that taste of home, and the hotels welcome being able to offer their guests premium exported products," Paech says.

Paech insists the longstanding relationship with Masuya – he met the company's owners at a food industry trade show in Singapore – has been critical to Beerenberg's success in Indonesia. "Having people you can trust and work with is absolutely vital. If you've got a solid relationship of trust you're halfway there," he says. His advice to Australian companies wanting to do business in Indonesia: once you find that local partner, listen.

"If you're not trusting what they're telling you, you can waste a lot of money trying to get things right." Paech says Masuya has been invaluable in helping Beerenberg to navigate government bureaucracy.

On one occasion the Indonesian government unexpectedly launched a crackdown on food labelling, enforcing largely dormant laws requiring foreign food labels to conform to local language and product specification requirements. Until then Beerenberg was using its Australian labels. "That would have been a big issue for us if we had to firstly understand the government requirements and then to comply with them. It made all the difference having our distributor on the ground. And it wasn't just the labels. It was also customs rules and what's printed on the cartons," Paech says. "I've been lucky to have been shielded from some of the more difficult discussions with government."

Beerenberg is planning on further inroads into Indonesia. The surging Indonesian economy and a boom in foreign tourism means more hotels and resorts to buy Beerenberg's jams, honey and sauces. Indonesia's expanding middle class also has an appetite for premium food products and Beerenberg products are now available in Jakarta supermarkets. Paech visits Jakarta twice a year to meet with his distributor, get to know sales staff and keep himself abreast of consumer tastes.

"It's about maintaining the relationships and about staying relevant. For us to have products that Indonesian consumers want to buy we have to visit the market and really understand its consumers," he says. "If you can get a foothold in Indonesia, it's really worth it." Beerenberg has annual revenue of $19 million. Exports account for 15 per cent of sales.

www.beerenberg.com.au

4. Conducting business in Indonesia

Having chosen your strategy for establishing your business, you must consider how to conduct business in Indonesia. This includes understanding Indonesian business etiquette and culture, developing business relationships, choosing agents and distributors, negotiating, holding meetings and carrying out due diligence.

4.1 INDONESIAN CULTURE AND BUSINESS ETIQUETTE

There are a number of basic, yet important tenets of Indonesian business etiquette to keep in mind. These include:

- Avoid using the left hand, which is considered unclean, to pass or receive anything, including business cards and gifts
- If you are being introduced to several people, it is customary to introduce yourself to the eldest member of the group. It is acceptable to shake hands with women
- Companies may not respond very quickly to emails, particularly if the sender is not well known to them. Patience is vital to succeeding in business in Indonesia
- Business relationships are based on trust and familiarity Personal contacts and networks are therefore important in making business deals
- Indonesians place great emphasis on age, and respect towards elders is expected
- Avoid touching or reaching over a person's head, especially that of an older person
- Watch body language. Hands on hips or folded arms can signify anger.

An understanding of Indonesian business culture will go some way towards helping you achieve your business goals

Dos	Don'ts
Always **have plenty of business cards**, and treat other people's cards with respect when they are handed to you.	Never give or offer your business card (or any items) with your **left hand**.
Ensure that your message has been fully understood as Indonesians will not always indicate when they unsure about something.	**Attempt to force a decision.** To attempt to do so will often have an adverse effect on negotiations.
Long-sleeved batik shirts are regarded as formal wear (equivalent to a dark business suit in Australia). Trousers, shirts and ties are common business attire.	Avoid **wearing revealing clothing** such as sleeveless shirts or shorts.
Be aware of *jam karet* (rubber time). This is an indication that meetings may not necessarily start on time.	**Alcohol** is not widely consumed and **pork** is prohibited for religious reasons. However, Indonesians generally tolerate alcohol consumption.
When presented with tea or coffee, **always wait for your host or hostess to drink first**. It is also considered polite to at least sample the food or drink offered.	Avoid **pointing with an index finger**, which is considered rude. Pointing with a thumb is acceptable.
Address each person using **their title and first name**, eg. Mr Andy or Miss Lia.	Avoid **showing the soles of your feet** when seated, as this is considered offensive, particularly if the soles face anyone in the room.
RSVP requests are frequently not answered, but this does not mean someone will not turn up to a meeting.	The **exchange of gifts** is not widely practised in business.

Business Cards

Business cards in English are acceptable; however having them translated into Bahasa Indonesia on the back of your card is an additional sign of respect. The protocol of handing out business cards is not as formal as in other Asian countries. Normally, business cards are exchanged after the initial handshake greeting with the card given and accepted by either two hands or the right hand (never only the left). Make sure to examine the card you receive with positive interest before putting it on the table next to you or in your business card case. Always treat business cards with respect and make sure to have your title clearly listed.

Forms of address

When formally addressing letters to Indonesians, all names should be written in full. In conversation, the same name is often used in both formal and informal contexts – for example "Mr Sudjana Santosa" or "Mr Sudjana". But as friendship develops, "Sudjana" would become acceptable. The titles "Drs" (male) and "Dra" (female) indicate a university graduate in social sciences or arts. The title "Ir" indicates a graduate in engineering or technical sciences. "DR" is a PhD and "Dr" is a medical graduate.

Dining

Indonesia offers almost all types of cuisine from all over the world, from fine dining and specialty restaurants in Jakarta to the many *warung* and *kaki lima* (small food stalls). However, due to hygiene concerns, you should be wary of dining at local food stalls. Food in most shopping mall restaurants is relatively cheap. At business dinners, wait for your host to invite you to drink or eat. Do not offer food or drink during the Islamic month of fasting, Ramadan.

Tipping

Tipping is not widespread in Indonesia. Hotels and most restaurants add a service fee to their bills. With taxis, it is usual for the customer to add around 10 per cent. You should always carry lower-denomination currency for taxi fares and small purchases.

4.2 BUILDING RELATIONSHIPS WITH INDONESIANS

Business partners

Investing in relationships is critical to succeeding in Indonesia. The strength of business relationships can determine many aspects of commercial life, including gaining credit, procurement and contracting, and the timeliness of bureaucratic processes. Investing in business relationships often involves large amounts of face-to-face time with a person of similar age and status, with a strong emphasis on loyalty and trustworthiness within the relationship.

Australian businesses should also explicitly consider the impact of age, gender, educational and marital status on the formation of personal and commercial relationships in Indonesia. For example, younger people are often excluded from decision-making processes, and are expected to defer in language and attitude to older people.

Patron/client relationships

As in the family, business relations are often defined by a broader hierarchy, which may be based on regional or religious ties, or on personal obligations for services rendered. This means that in business, loyalties are often intensely personal and revolve around the *bapak* (boss), rather than the organisation itself. In this system, it is easy to understand the development of patron/client relationships, whereby those with influence and prestige provide for those less well placed in the hierarchy in return for their loyalty.

Foreign businesses should recognise the ubiquity of these relationships, and how they might impact on the probity and integrity of many business processes.

Business as part of a community

The concept of "group welfare" is very influential in Indonesian culture, and foreign businesses that seek to contribute to the welfare of those living and working in their immediate neighbourhood stand to gain significant advantages.

Anti-Western economic nationalism is not uncommon in Indonesia, so strong community engagement can help ensure that local people identify with the business and have an interest in "protecting" its operations.

CASE STUDY

Vedaleon

Mac Smith, Co-founder

Having a permanent representative or branch office in Indonesia is expensive – and, in some circumstances, quite unnecessary. Vedaleon Technologies, a Melbourne-based aviation software company, has been selling its customised internet reservation systems to Indonesian budget carrier Lion Air since 2008. Vedaleon was formed two years after the 2001 collapse of Ansett Australia. At last count it employed 35 people, including three to five staff dedicated to servicing Lion Air Group.

In the early years of the relationship, Vedaleon had a representative based in Jakarta, in addition to a small team in Melbourne working on the Lion Air account. But daily communication between Jakarta and Melbourne now takes place remotely. Vedaleon co-founder Mac Smith says it was never a pre-condition that the company have an office in Indonesia. "Lion is one of the most progressive airlines in the world at the moment," Smith says. "They knew exactly what they wanted and they could see that we could deliver it and we now have an ongoing relationship.

"We don't need to have a presence on the ground. It might be an advantage if we had someone [in Indonesia] as an ambassador for the company, but in practical terms we don't need to have someone there."

Smith also plays down the importance of having in-house Indonesian speakers, although two of the Vedaleon team servicing Lion Air speak Bahasa Indonesia.

"It's a plus [having Indonesia speakers in-house], but I wouldn't say it's a necessity," Smith says. Regular teleconference meetings are generally held in Bahasa Indonesia, but informal conversations are often in English.

Vedaleon's foray into Indonesia started with an unsolicited phone call. "Lion Air had heard that we had developed an internet booking engine for Jet Airways in India and they wanted to know if we could customise the product for them," Smith recalls. "The answer was yes." Since then, the relationship has grown, with Lion's new international offspring, Batik Air, and its Malaysia-Indonesia carrier Malindo Air also becoming clients.

As well as regularly updating the internet reservation systems – including adjustments around marketing campaigns and fare variations – Vedaleon is developing self-service check-in kiosks for the group.

The key to servicing offshore clients, says Smith, is trust. "It always comes back to trust and the strength of relationships."

www.vedaleon.com.au

The role of the Indonesian-Chinese

The influence and impact of Indonesia's Chinese community on the national economy cannot be overstated. Many businesses are joint enterprises between Chinese entrepreneurs and Indonesian partners. Accordingly, foreign businesses should acquaint themselves with key aspects of Chinese business culture – for example, the importance of kinship, loyalty and subservience – in order to navigate the intricacies of business in Indonesia.

Local government and authorities

In addition to developing relationships with business partners and establishing yourself in the local business environment, Australian businesses need to be aware of the primary government agencies and licensing authorities that may have to be consulted throughout the process of setting up in Indonesia. These include:

Indonesia Investment Coordinating Board (BKPM)

Regulation and promotion of domestic and foreign investment in Indonesia is conducted by the Indonesia Investment Coordinating Board (BKPM) and its regional offices. As of January 2015, the BKPM has implemented 'One Stop Service' centres across Indonesia to integrate its and other government ministries and institution services. This will assist foreign investors by providing prompt, transparent and straightforward services for obtaining investment licences. The BPKM should be your first point of contact if establishing a business in Indonesia.

Ministry of Trade

The domestic and international commercial and trading sector in Indonesia is serviced and supported by the Ministry of Trade which also has the role of facilitating and promoting growth in the area.

Ministry of Law and Human Rights

The authority to approve establishment of limited liability companies in Indonesia lies with the Ministry of Law and Human Rights. This Ministry is also responsible for the development and implementation of government regulations and legislation in regards to human rights and laws.

Ministry of Manpower

Corporate governance, industrial relations, worker social security and regional development are all overseen by the regulatory body the Ministry of Manpower. In addition to focusing on improving employment opportunities, the Ministry also is responsible for granting work permits to companies to employ foreign nationals in Indonesia.

Directorate General of Taxes (DGT)

The DGT is a government agency under the Ministry of Finance with the executive responsibility to collect state revenue via taxes and ensuring taxpayer compliance. The DGT also has the key legislative function of making, interpreting and implementing tax laws with one of the other agencies of the Ministry of Finance. This is in addition to the judicial function of handling tax assessment related disputes.

Directorate General of Customs and Excise

The Directorate General of Customs and Excise is accountable for collecting state revenue associated with import activities including import duties.

Directorate General of Immigration

The Directorate General of Immigration controls and monitors all immigration related matters including issuance of visas and stay permits for foreigners, expatriate workers and residents in Indonesia.

Environmental Control Agency (ECA)

ECA is the Indonesian government's agency responsible for environmental capacity development, conservation and related corporate governance. Australian businesses entering Indonesia should note that an 'Analysis of Environmental Impact' certificate is required from the ECA if your business may have any potential impact on the environment.

4.3 NEGOTIATIONS AND MEETINGS

Negotiations can be lengthy, so you must allow enough time to carefully consider the business proposal. Often it takes several meetings before coming to an agreement. Initial meetings generally serve to make acquaintances. Indonesia is a relationship-driven market.

How to negotiate

Be polite and humble and show appreciation for what the other party says and does. Try not to act in haste or to rush others and don't issue ultimatums. Do not cause loss of face or criticise someone publicly and note that your use of tone and language can make or break a relationship. PowerPoints and short video clips are most effective in meetings. When giving presentations, assess your audience in advance and use jargon-free English. It is recommended to keep words to a minimum and visual displays to a maximum in presentations. The role of intermediaries or "facilitators" is common in Indonesia and can often be invaluable for progressing negotiations behind the scenes and managing disagreements to avoid any public loss of face.

Managing business meetings

Accept that appointments may be hard to secure and be aware your hosts' schedules can change at short notice, especially those of government officials. State early in the conversation who you are or who you represent and why you are visiting and wanting to do business with them. For instance, if the appointment was given as a result of personal relationships, talk a little about that relationship at first before going into business details.

Remember when arranging meetings, Jakarta is infamous for its traffic jams. Usually, depending on location, you can only get to three appointments in a day.

4.4 DUE DILIGENCE AND AVOIDING SCAMS

Australian firms planning to operate in Indonesia should commit to the highest level of corporate behaviour and familiarise themselves with Australian laws and penalties for bribery. Australian individuals and companies can be prosecuted in Australia for bribing foreign officials when overseas. For further information on frauds, scams, personal and asset security, intellectual property protection and other business risks, see Chapter 5.

Dispute resolution

Companies involved in international commercial disputes should seek appropriate legal advice in Australia or overseas. Austrade can provide referrals to legal service providers upon request.

A number of international arbitration commissions exist to facilitate international dispute resolution. Deciding which arbitration body best suits your commercial needs is complicated, and requires the balancing of many considerations – and good legal advice. The choice of arbitration body will depend on a combination of convenience, cost and the facts of the particular case.

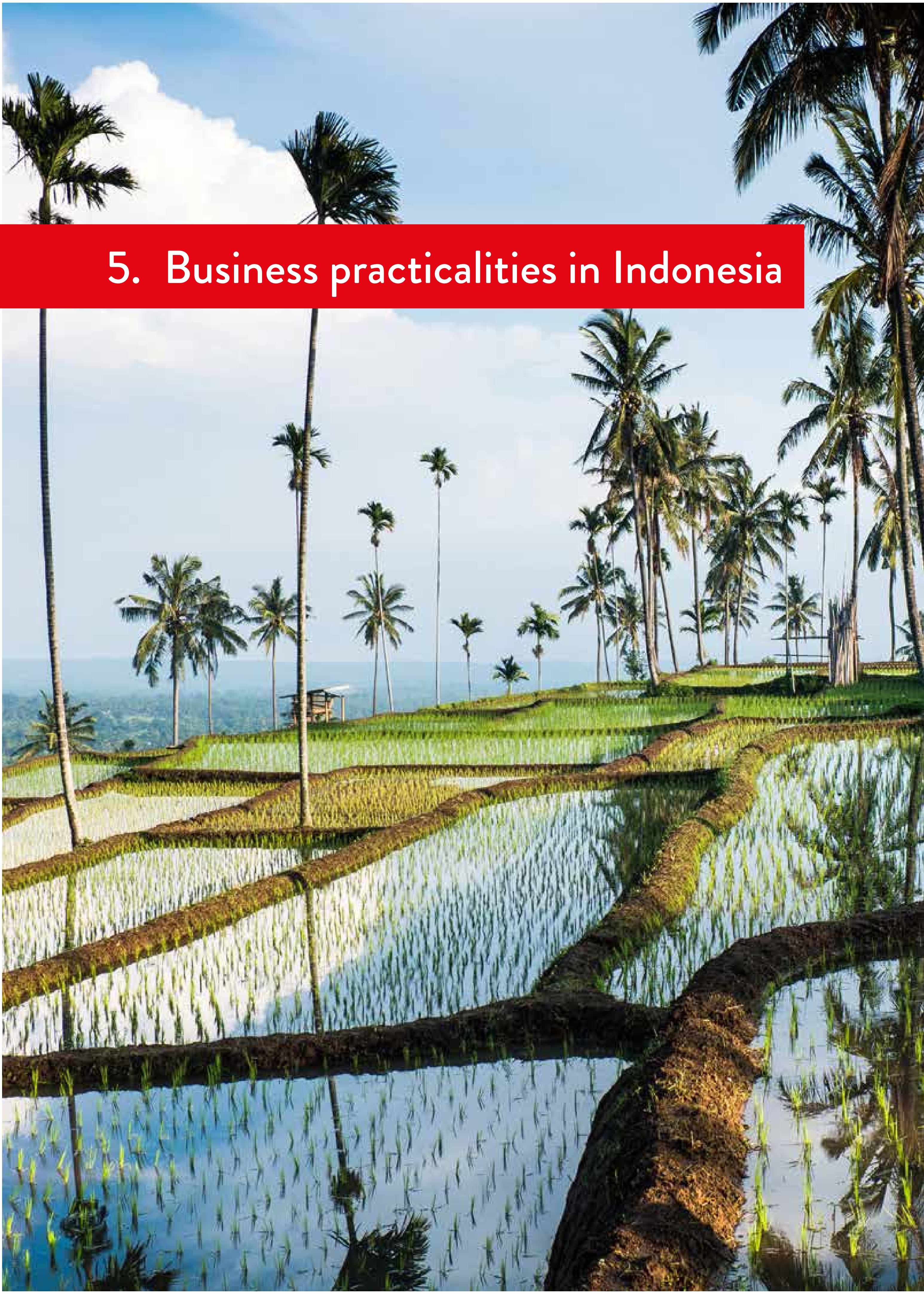
While the Australian government supports arbitration as a preferred method of commercial dispute resolution with foreign companies, it does not endorse any one arbitration body over another.

Scams

There are a number of websites that alert consumers and businesses to scams, both in Australia and overseas. Watch for scam alerts at www.scamwatch.com.au. If you believe you are contacted by a scam, ignore the emails and delete immediately. Common scams targeting foreigners in Indonesia include:

- **Taxi scams**: Jakarta has several taxi companies. It is usually best practice to stick with the higher-end Silverbird taxi line (Mercedes Benz vehicles) to avoid "the scenic route".
- **Property investment scams:** Indonesian land law is complex and a foreign individual cannot directly own land. Any property promotion stating otherwise is false, and at best a foreigner can either form a foreign investment company (PMA) or nominate an Indonesian citizen to freehold land for them. The latter is particularly risky as there is limited legal recourse in the event of a dispute. There have been various cases of scam property businesses that target foreigners to acquire properties by deceit.
- **Credit card scams**: Many major credit card companies list Indonesia as the worst country for credit card fraud despite numerous efforts having been made to diminish it.

5. Business practicalities in Indonesia



Understanding legal regulations and the practicalities of tax law, employment law and other relevant provisions are among the main challenges for Australians conducting business in Indonesia. This chapter provides an overview of the main areas that need to be considered in the Indonesian business environment. However, it is strongly recommended that you also seek professional advice in the area for which you require specific information.

5.1 LAWS AND REGULATIONS

Indonesian legislation incorporates different regulations and types of laws which sometimes conflict with each other. The official hierarchy of Indonesian legislation (from top to bottom) includes:

- 1945 Constitution (Undang-Undang Dasar 1945 or UUD'45)
- Law (Undang-Undang or UU) and Government Regulation in Lieu of Law (Peraturan Pemerintah Pengganti Undang-Undang or Perpu)
- Government Regulation (Peraturan Pemerintah or PP)
- Presidential Regulation (Peraturan Presiden or Perpres)
- Regional Regulation (Peraturan Daerah or Perda).

The complication of laws also comprises the various Presidential Instructions, Ministerial Decrees and Circulation Letters in practice.

The judicial system in Indonesia is extensive with several stages of courts overseen by the Supreme Court. This often causes dispute settlements to be a lengthy process. Most disputes are heard before the courts of general jurisdiction, with the State Court being the court of first instance. Appeals at this stage are then escalated to the High Court with final appeals heard by the Supreme Court. A Commercial Court also exists to handle commercial matters including insolvency cases. Despite this, Indonesia was positively ranked 43rd out of 144 countries for the efficiency of its legal framework in settling disputes in the World Economic Forum's *2014-15 Global Competitiveness Report*.

Investment rules

Promotion of foreign investment and development of the investment climate are key objectives of the Indonesian government. This is carried out through the Indonesia Investment Coordinating Board (BKPM) by employing numerous initiatives and improving regulatory framework. The introduction of BKPM's 'One Stop Service' centres across Indonesia in 2015 is an example of such initiatives aimed at streamlining licensing processes that integrates cooperation among central and regional governments.

Capital Investment Law No. 25/2007 is the primary legislation governing foreign direct investment in Indonesia. This law outlines various policies including:

- Equal treatment of domestic and foreign investors with some limitations on investment in certain strategic sectors to protect local business
- The provision of employment of expatriates by foreign investors in specified positions with the obligation to improve local people's skills and expertise through training and development
- Repatriation of profits from Indonesia in the forms of dividends, capital reduction, payment liquidation proceeds or payment of royalties or technical fees for foreign investors
- Granting of tax concessions centred on particular investment criteria including absorbing a large number of employees, developing infrastructure, technology transfer initiatives, and investing in a high-priority business sector or a business in a less developed, remote or border area.

Investment restrictions

Some types of businesses in Indonesia are restricted to foreign investors. Presidential Regulation No. 39/2014 stipulates the lines of business open and closed to foreign investors. Some business areas are entirely closed to foreign investment (such as local handicrafts), while others require joint ventures with domestic investors.

Land and property rights

The legal concept of freehold land rights, as practiced in Australia, is not recognised in Indonesia. The Basic Agrarian Law is observed instead which recognises several types of land rights. Foreign investors should particularly note the right of ownership (*hak milik*) which is solely an inheritable right only permitted to be held by Indonesian citizens.

Australian businesses will primarily encounter three principle rights when establishing a company in Indonesia which are commonly entered into agreement with either the state who owns the land or an individual with right of ownership. These are defined by the duration of validity, the nature of utilisation, opportunities to mortgage and proof of title and include:

- **Right of building (*hak guna bangunan*):** This is granted by the discretion of the local government and is a right to construct and own buildings. It generally is for a length of 20 or 30 years and may be renewed
- **Right of exploitation (*hak guna usaha*):** This is a right to cultivate state-owned land for agriculture and plantation purposes for a maximum duration period of 25 years with allowance to extend to 35 years
- **Right of use (*hak pakai*):** This permits the right to use and collect 'results' from land only if the land is used for the authorised use and purpose outlined in the agreement. This is also for a maximum period of 25 years.

Registration for such rights is generally conducted at the Land Register at the National Land Agency (Badan Pertanahan National – BPN).

Intellectual property

As outlined in the Australian Government website IP Australia, the government body responsible for registration of IP rights in Indonesia is the Directorate General of Intellectual Property Rights (DGIP). You can acquire and register IP protection for trademarks, copyright, designs and patents. Existing IP can be searched on the DGIP website's database.

Australian businesses that do not have a place of business in Indonesia are required to lodge all applications through an Indonesian IP attorney or agent. Although the relevant cost is less than in Australia, the process is slower. However, litigation proceedings are heard relatively quickly, which significantly reduces costs and time. Infringement cases are commonly resolved without legal proceedings. This is often recommended because filing of evidence in litigation proceedings can be expensive due to the requirement of original evidence or legalisation of copies.

Trademarks

Indonesia employs a first-to-file rule for obtaining trademark rights – the first person to file a trademark application will generally have priority over any subsequent users of the mark. Trademark protection should therefore be sought as soon as possible. Other factors to note are:

- Indonesian police are legally required to investigate trademark infringement complaints. However, be mindful that police operation in Indonesia is vastly different to Australia in regards to enforcing intellectual property rights
- If trademark registrations are not used during a period of three or more consecutive years after registration, then they may be removed
- Indonesia's customs authorities provide cross-border measures for the protection of trademarks. Stricter penalties for trademark infringement were recently introduced.

Other intellectual property

There are two forms of patent protection available in Indonesia – patents (which have a 20-year term) or simple patents (which have a 10-year term and a lower level of inventiveness required). Certain types of subject matter cannot be patented in Indonesia. Among other intellectual property categories:

- Industrial design protection is available for a 10 year period. The registration process is relatively quick as an application is only substantively examined if it is opposed by a third party
- Registration of copyright is available in Indonesia. While not mandatory, it is highly recommended
- Indonesia has provisions for the protection of plant variety rights.

It is recommended that you contact an intellectual property professional experienced in Indonesian IP law and trade to advise on local IP, customs and other laws regulating imports and trade in Indonesia. Australian IP professionals can facilitate such contact.

Overview of AANZFTA tariffs for Australian businesses exporting to Indonesia

WHEAT 0%	**BEEF** (fresh, chilled or frozen carcasses or with bones) 0%
BEEF (fresh, chilled or frozen without bones) 5% to be eliminated by 2020	**BUTTER AND MOST CHEESES** 0%
FRESH GRAPES 0%	**COTTON** 0%
ALUMINIUM 0%	**GRINDING BALLS OF IRON OR STEEL** 0%
MOTOR VEHICLES AND ACCESSORIES MOSTLY 0%	**PHARMACEUTICALS FOR RETAIL SALE** 0%
MISCELLANEOUS CHEMICAL PRODUCTS 0%	

5.2 IMPORT DUTIES, TARIFFS AND REGULATIONS

Australian businesses exporting goods to Indonesia should be aware of the various import duties and taxes that may apply, and other import regulations with which they must comply. The terms tariff and duty are often used interchangeably and refer to the applicable taxes. However, a tariff is a tax applied on imports only, whereas duty is taxes that also apply to domestic products. For Australians exporting to Indonesia, tariffs and duties are calculated on the complete shipping value, which includes the cost of the goods, the cost of freight and the cost of insurance. This section will highlight the core information on tariffs, duties and other taxes that may affect Australian businesses as well as an overview of the import regulations.

Tariffs, as well as import regulations, are frequently revised and subject to change without notice. Therefore, it is strongly recommended you reconfirm these before selling goods to Indonesia.

Tariffs/import duties

The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) applies for numerous goods imported into the country. Indonesia's customs agency uses a tariff schedule based on the Harmonised Commodity Description and Coding System for classifying goods. In addition to tariffs, Value Added Tax (VAT) is levied on most imports at the rate of 10 per cent of CIF + Import duties (tariff). Certain goods are exempted from VAT. An additional Luxury Goods Sales Tax (LST) is imposed on certain goods that are defined as luxury goods. A Prepaid Income Tax Article 22 is also applied at 2.5 per cent or 7.5 per cent of CIF (cost, insurance and freight) + Import duties.

AANZFTA enforcement will result in tariffs on 92 per cent of affected items being reduced to zero by 2015. This will increase to 94 per cent by 2025. In order to qualify for the AANZFTA tariff rates, a product has to meet strict Rules of Origin requirements and have a Certificate of Origin. It is recommended that you consult DFAT for the most recent requirements. If a product imported into Indonesia does not meet the requirements of being manufactured in Australia, other import duties may apply. These may vary based on the product's classification and the country of origin. Consult the World Trade Origination (WTO) for the current import duty rates.

Some goods are exempt from import duties from all countries, including:

- Goods for representatives of foreign countries, and international bodies and their officials who work in Indonesia
- Goods for research and scientific purposes
- Machinery for the establishment of industry.

Importers/customs brokers may release certain imported goods by using complementary customs documents to obtain a rush-handling facility. Some goods for which the rush-handling facility can be used include:

- Human body organs
- Hazardous materials
- Live animals and plants
- Time-sensitive newspapers and magazines.

Import regulations

Importing products into Indonesia requires the completion of several processes and compliance with related regulations (see diagram on next page).

Import restriction and compliance

Companies importing goods into Indonesia must obtain an Importer Identification Number (an import licence known as API) from the Ministry of Trade (for local companies) or the BKPM (foreign companies). In addition, to import certain types of products including textiles, shoes and electronic goods, an importer must possess a special import licence from the Ministry of Trade. Alcoholic drinks can be imported into Indonesia but are subject to restrictions. Hazardous waste cannot be imported into Indonesia.

Non-compliance with customs obligations may lead to significant additional administrative penalties which can be up to 1,000 per cent. With a view to both monitoring import activities and increasing state revenue, the Directorate General of Customs and Excise has recently been stricter with its monitoring of customs compliance.

The Ministry of Trade finally issued a new regulation in May 2012 which stipulates the following two provisions:

1. Limitation of types of goods imported

General importing trading companies are allowed to import products only of the same section in the Customs harmonised code.

2. Manufacturing companies can import limited finished products

Manufacturing companies are restricted in importing finished products for direct sale. The limited finished products permitted to be imported include those that are free samples or complementary products and those used for market testing.

Restricted and prohibited goods for importing into Indonesia include:

- Narcotics
- Explosives, including fireworks
- Arms and ammunitions
- Defined books and printed materials, audio and visual recording media
- Certain species of flora and fauna.

IMPORT REGULATIONS

1 Registration
- Customs identification Number (NIK)
- Importer Identification Number (API)

Using an Import Declaration Form (PIB) and supporting documents i.e. commercial invoice, insurance letter etc

2 Declaration to the Customs Authority

Should be settled before goods are released from the customs area

3 Payment of import duty and import taxes

Two types of import licence
- API-P (Producer Importer Identification) is for importation of machines/equipment, goods and materials to be used in the importer's production process.
- API-U (General Importer Identification Number) is for goods for trading purposes.

4 Customs verification

Verification of documentation and physical inspection of goods (if any)

5 Release of goods

Special requirement for import of certain goods
- Special Importer Identification Number (NPIK)
- Registered Importer
- Labelling in Indonesian language
- Surveyor Report
- Used goods approval

5.3 TAXATION

Corporate income tax

Under Indonesian tax law, a company is treated as a resident of Indonesia for tax purposes by virtue of having its establishment or domicile (place of management) in Indonesia. A foreign company carrying out business activities through a permanent establishment (PE) in Indonesia will generally have to assume the same tax obligations as a resident taxpayer.

Indonesian PEs of foreign companies have to settle their tax liabilities either by direct payments, third party withholdings, or a combination of both. Foreign companies without a PE in Indonesia have to settle their tax liabilities for their Indonesian-sourced income through withholding of the tax by the Indonesian party paying the income.

Income tax is collected on certain types of transactions such as:

- Importation of goods
- Sale of goods to the government
- Sale or purchase of certain products
- Sale or purchase of very luxurious goods
- Payment of certain services.

Tax rate and period

A general flat rate of 25 per cent applies as Corporate Income Tax. January to December is the normal tax period however a different tax period may be used with prior approval from the Director General of Tax (DGT). This tax rate also applies for PE profits. After-tax profits (regardless if remitted to the home country) are subject to 20 per cent withholding tax (WTH) rate. Australian businesses meeting certain criteria may have access to a reduced WTH rate of 15 per cent through the Indonesia-Australia tax treaty.

Value Added Tax (VAT) and Luxury Goods Sales Tax (LST)

Value Added Tax (VAT) is generally applicable at a rate of 10 per cent on the deliveries of goods and services within the Indonesian Customs Area. This may be increased or decreased to 15 per cent or five per cent according to government regulations.

Other categories of goods and services are treated as follows:

- Goods exported from Indonesia are subject to zero-related VAT, but imported goods are subject to the full 10 per cent rate, with some exceptions
- Some exported services qualify for zero-rated VAT, including toll manufacturing, repair and maintenance and construction services
- Inbound use or consumption of foreign services or intangible goods, with few exceptions, is also subject to VAT at 10 per cent.

Some goods are also subject to LST upon import or delivery by the manufacturer in addition to VAT. The current LST rates range from 10 to 75 per cent, although the law allows the rate to be increased up to 200 per cent.

Tax incentives

Indonesia offers various tax concession schemes and incentives for businesses including tax holidays, inbound investment incentives, reinvestment of branch profits, tax cut for public companies and tax neutral mergers. An example of one is the 50 per cent discount on the corporate tax rates for small businesses with an annual turnover less than IDR 50 billion (approximately $5 million). Certain requirements need to be fulfilled by businesses to be considered eligible for such incentives. Please consult your tax adviser for further information.

Tax administration

Tax liabilities for a particular period or year must be paid to the State Treasury through a designated tax-payment bank (*bank persepsi*) and then accounted for at the Indonesian Tax Office through the filing of the relevant tax returns. The tax payments and tax returns filing for a particular tax must be undertaken monthly or annually, or both (depending upon the tax obligation in question) and can also be conducted electronically. Corporate tax returns must be filed by the end of the fourth month after the end of the financial year with tax payments having to be completed prior to filing. The deadline for filing corporate tax may be extend by up to two months through written notification and a tentative tax calculation submitted prior to the deadline to the DGT. Failure to file a tax return by the relevant deadline may result in the DGT issuing a warning letter to the taxpayer in question where if ignored, can lead to further tax assessment and penalty.

Corporate tax can also be arranged to be paid in a prepayment system based on the previous tax year's liability. This involves monthly instalments of payments to be made by the 10th or 15th of each month and tax returns filed by the 20th of the following month. VAT in comparison is a monthly obligation with a tax return filing deadline of the end of the following month and tax payments required prior to this deadline.

Late payments of the above taxes incur interest penalties at two per cent per month (with even part of a month such as a single day, considered to be a full month), at a maximum of 48 per cent. Late filing or failure to file a tax return incurs an administrative penalty ranging between IDR 500,000 ($50) to IDR 1 million (about $100).

Tax calculation

Taxable business profits are calculated on the basis of normal accounting principles as modified by certain tax adjustments. Generally, a deduction is allowed for all expenditure incurred to obtain, collect, and maintain taxable business profits. A timing difference may arise if an expenditure recorded as an expense for accounting cannot be immediately claimed as a deduction for tax.

Tax losses

Losses may be carried forward for a maximum of five years. Carrying back of losses is not allowed and tax consolidation and group relief is not available.

Withholding tax

Indonesian income tax is collected mainly through a system of WHT. Individuals and corporations, whether resident or non-resident, are subject to WHT levied on various items of income. Please consult your tax adviser for the latest rates and those applicable to your specific business.

Transfer pricing

Transactions between related parties must be consistent with the arm's length principle. If the arm's length principle is not followed, the DGT is authorised to recalculate the taxable income or deductible costs arising from such transactions applying the arm's length principle.

Personal income tax

Income tax is levied on both residents and non-residents in Indonesia. A tax resident is regarded as a person: usually residing in Indonesia; is present in Indonesia for more than 183 days in any 12-month period; or is present in Indonesia during a fiscal year and intends to reside in Indonesia. These rules though may be overridden by provisions of tax treaties. An Indonesian resident taxpayer is subject to tax on income from all sources worldwide at the following rates:

Taxable Income (IDR million)	Applicable Tax Rate
Up to 50	5%
Over 50 but not exceeding 250	15%
Over 250 but not exceeding 500	25%
Over 500	30%

Individual tax payments are due by the end of the third month after the year end before filing the tax return. For annual income tax return, taxpayers may extend the filing deadline by up to two months. As in corporate income tax, late payment of individual income taxes incur interest penalties between two to 48 per cent, while late filing of tax return incurs an administrative penalty of IDR 1 million ($100).

In addition, dividends received by resident individual taxpayers are subject to a maximum 10 per cent final income tax. Non-resident individuals are subject to WHT at 20 per cent on their Indonesia-sourced income. Concessions are available; consult your tax adviser.

5.4 AUDIT AND ACCOUNTANCY

Generally, for tax purposes, a company's books must be maintained in accordance with the Indonesian Financial Accounting Standards (SAK) unless the tax law stipulates otherwise. These standards have been adopted from the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting books by default must be stored in Indonesia, composed in Bahasa Indonesia and maintained in Rupiah. Some businesses are permitted to use USD as their functional currency and compose the books in English subject to approval from the DGT. Irrespective of the currency and the language used, businesses typically have to settle their tax liabilities in Rupiah and file tax returns in Bahasa Indonesia. For corporate income tax, the assertions must be presented in USD side by side with Rupiah in the annual tax return.

Accounting period

The calendar year is commonly regarded as the fiscal year in Indonesia. However, with prior approval from DGT, a company may choose a fiscal year starting on a different date than January 1.

Bookkeeping currency

USD is the only other currency permitted to be used with SAK standards. If applying for permission to use USD rather than Rupiah, an application for approval must be filed with the DGT's office no later than three months before the beginning of the USD accounting year. The DGT is required to decide on the application within a month. If no decision is made within that time, the application is automatically approved.

Bookkeeping language

The use of a foreign language other than English in a company's accounting books is prohibited. Permission is required from the Ministry of Finance to use English instead of the mandatory Bahasa Indonesia.

Accounting basis

Indonesian law requires that companies apply the accrual basis in their accounting practice. It differs from cash basis of accounting in that expenses are reported only when the actual transaction occurs, not when payment is made.

Accounting books

Accounting journals, ledgers and other financial records of a company must be maintained and updated regularly for tax purposes. Appropriate guidelines are outlined in the SAK for businesses to follow.

Financial statements

Financial statements are required to be composed as a competitive basis using the current year's information against the previous year. A complete set of financial statements includes a statement of financial position, income statement, cash flow statement, and statement of changes in equity, and may also include explanatory notes and supporting documents.

Reporting format

The format for financial reporting is outlined in the SAK.

Preservation of books and records

Indonesian law requires that all taxpayers preserve the accounting books and records for at least 10 years, starting from the day after the deadline for filing a return or from the date of filing if the return was filed after the deadline.

Audit requirements

Types of entities including listed companies, finance lease companies and companies with assets worth IDR 250 billion ($2.5 million) or more, are required to have statutory audits by a qualified auditor before submitting their financial statements to the Ministry of Trade. These are conducted based on the standards set out by the Indonesian Institute of Certified Public Accountants.

5.5 EMPLOYING WORKERS

Labour market

Indonesia's labour pool is estimated at around 120 million people, and is growing annually by approximately 2.4 million. As the economy has progressed beyond its predominantly agricultural base to a mixed composition, more workers – particularly women – are now employed in manufacturing and service-related professional industries.

The Ministry of Manpower is the government agency that regulates all employment practices in Indonesia. It continuously reviews conditions of employment, manages union and employer relationships through collective labour agreements and reviews the development of manpower training programs. Industrial disputes are referred to a labour court for resolution.

While investors have full authority to appoint their own management, the enterprise must use Indonesian labour – except in situations where suitable Indonesian applicants are not available. Employers of expatriates are required to implement training programs for Indonesian employees and, in the case of foreign companies, they must take on at least one Indonesian national for every expatriate employed. The employment of local staff requires careful planning to ensure adherence to manpower rules affecting employee rights. The Manpower Law (No. 13/2003) and its related implementing regulations should be carefully reviewed and understood by management.

Human resources and employment law

The Indonesian Labour Law (known as the Manpower Law) focuses on promoting worker protection in a series of measures. Key areas that need attention from employers include the following:

Contracts

Employment agreements can be either written or verbal but it is best to have the contracts written to minimise legal issues. There are two types of employment contracts: fixed-term and permanent. A fixed-term employment contract can be used only for seasonal jobs or those that will be completed in a set time period. Bilingual contracts are permitted, but the Bahasa Indonesia version will always prevail in any dispute.

Hiring staff

Staff can be hired either through direct recruitment or outsourcing. Outsourced recruitment is only allowed for workers engaged in non-core activities such as janitors and security workers.

Working hours

Indonesia's normal working week is generally over five or six days, totalling 40 hours. Working in excess of this will generally be considered as overtime and require compensation, except for those in management roles. Normal break time is a minimum of 30 minutes per four hours of work.

Welfare obligations

Employers with more than 10 employees or with a monthly payroll exceeding IDR 1 million must register with the state-run worker insurance program. This program consists of mandatory provision for employee accident protection, death insurance and retirement savings. Other than the retirement plan, benefits are entirely funded by employer contributions.

	% of regular salaries/wages	
	Borne by employer	Borne by employee
Working accident protection	0.24-1.74%	–
Death insurance	0.3%	–
Retirement saving	3.7%	2%

Another compulsory social security is health insurance. This social security is managed by BPJS Kesehatan. The compulsory requirement for health insurance is applicable from 1 January 2015.

Period	Monthly contribution	
	Employer	Employee
January - June 2015	4%	0.5%
July 2015 – onwards	4%	1%

The maximum wage rate that will be used as the basis to calculate the health insurance contribution (basic gross salary including fixed monthly allowance) is capped at IDR 4,725,000 ($472.5). For employees with salaries below this maximum wage rate, the actual salary amount will be used.

Wages and other remuneration

Employers must comply with minimum wage rates determined by the regional government from each province and regulated by the Department of Manpower. Minimum wage rates vary widely between provinces. For example, Jakarta's regional minimum wage rate for 2015 is IDR 2,700,000 ($270) per month. In some other provinces the minimum is less than half the Jakarta rate. Companies are free to compensate employees over and above the minimum rate. To check current minimum wage rates across Indonesia, go to http://www.wageindicator.org/main/salary/minimum-wage/indonesia.

Indonesian employees are entitled to receive 13 months of salary or wages in each year. The additional one month salary is known as Tunjangan Hari Raya and is paid prior to the annual religious celebration of the particular employee.

Tax should be deducted from salaries paid to employees. In the past, however, employers often paid the income tax due on salary and wages because employees did not have personal tax registrations and were only focused on their take-home salary. As a consequence, many salaries were negotiated on a "net/take-home basis", so care should be taken that new employees understand whether an offered salary is gross or net.

Leave and break

Employees are entitled to a minimum of 12 days' annual leave every year. Leave must be granted for certain occasions including marriage and the death of a family member. Female workers must also be granted leave for menstruation, maternity and miscarriage.

Unions

Workers are entitled to form a union to represent workers' interests to the employer. Each union must have its own by-laws and manage its own budget.

Termination

Any decision on termination of employment must be mutually agreed upon by both the parties. It requires that the employee or the labour union must be consulted by the employer prior to any decision. In case of an unresolved disagreement, the employer may terminate the employee by filing a case to the relevant industrial relations dispute resolution institution. The employer is required to pay due compensation to the employee terminated. This is calculated on the basis of length of service, type of employment contract and the reason for termination.

Expatriate employees

In Indonesia, expatriates can only be employed on a temporary basis or for certain skilled or senior positions after obtaining permits to legally work and reside in Indonesia. A ratio is generally expected of 1:3 between expatriates to Indonesian employees. Acceptance of a lower ratio is permitted if difficulty occurs in hiring an Indonesian with the required qualifications and experience. Hiring expatriates is allowed on the condition that regular training will be provided to local staff to enable future replacement of the expatriate's position by local staff, otherwise known as "localisation". The ratio does not apply for director positions with foreign investors permitted to appoint their own management teams.

Work permits for expatriates are valid for a year or less, but can be extended. Normally there are no obstacles to obtaining approval for expatriates in cases where the government believes qualified local people are not available. The government regularly announces a list of positions that are closed to non-Indonesian personnel.

Manpower report

It is mandatory for all businesses in Indonesia to submit an annual manpower report. It must contain key information including the numbers and skill level of all local and expatriate employees, as well as detailed wage structures.

Managing an Indonesian team

Australian businesses should develop and adapt their management styles to accommodate local preferences and to be as appropriate for the local context as possible. Social hierarchy and loss of face are key issues for Australian managers to be aware of. They should also encourage social interaction in the workplace. Management techniques that are confrontational and assertive – such as public reprimands or criticisms – should be avoided as they can easily lead to disrespect and uncooperative work practices, which in turn negatively impact employee commitment.

5.6 BANKING IN INDONESIA

Banking environment

Banking institutions in Indonesia are classified either as commercial or rural banks. The core difference is that the rural banks have restricted operational areas and are not directly involved in payment systems.

Commercial banks in Indonesia are either non-Syariah or Syariah-based. Syariah (or Sharia) banking involves adherence to Islamic Syariah principles, including prohibitions on interest and investment in businesses that provide goods or services against Islamic principles (e.g. pork and alcohol). There are more than 120 commercial banks in Indonesia, of which four are state banks and the rest private banks, foreign joint ventures and foreign bank branches. Restructuring of the banking sector following the economic crisis of 1997 has led to the entry of foreign investors into many of the large locally owned banks.

Business and banking

Business entities in Indonesia are required to open bank accounts on-shore as the Indonesian Rupiah cannot be circulated or converted in the global market. Account opening procedures for businesses include submission of legal documents such as the deed of incorporation, and licenses and certificates of approval from relevant government agencies.

Local financing options for Australian businesses operating in Indonesia include banks and capital markets. An alternative is becoming a publicly listed company on the Indonesian stock exchange, raising funds by selling shares to local and foreign investors.

In addition to regulating and overseeing the banking sector, Otoritas Jasa Keuangan (OJK), Financial Service Authority supervises foreign investment activities. Its role includes:

- Monitoring banking and investment accounts that foreign joint venture companies must open to bring foreign currency into Indonesia
- Ensuring that foreign investment capital originates from offshore
- Registering all offshore loans received by companies, including Indonesian Limited Liability (PMA) companies.

There are no foreign exchange controls in the Indonesian banking system. Accordingly, investors may freely transfer funds to and from abroad. However, transfer of funds exceeding US$10,000 (or equivalent) from and within the country should be reported to the central bank. Repatriation of profits, costs related to expatriate employment, expenses (including loan principal and interest), royalty and technical fees and capital is permitted. No prior permits are necessary to transfer foreign exchange. In addition, there are no restrictions on outward direct investment.

Other sources of financing

Indonesian individuals and companies are permitted to borrow from overseas. However, they must register these loans with OJK and then submit monthly reports regarding the status of the loans. Failure to register and report will result in penalties for the borrower.

Australian banks in Indonesia

As highlighted in Chapter 1, Australian banks are prominent in the Indonesian banking sector. In addition to ANZ being one of Indonesia's 10 largest private commercial banks, the other three major banks have an increasing presence in the country. The Commonwealth Bank of Australia specialises in retail and small business banking and insurance in Indonesia, Westpac is currently building a wholesale banking operation, and the National Australia Bank is entering the Indonesian market with a representative office. A number of other prominent Australian financial services providers, including Macquarie Group and IAG, also have operations in Indonesia.

5.7 REPATRIATING PROFITS AND GETTING PAID

Repatriating profits

The Rupiah is freely convertible, although approval from OJK must be obtained before carrying more than IDR 100 million out of the country. Any person carrying IDR 100 million or more into Indonesia must verify the authenticity of the funds with Indonesia's customs agency upon arrival. Any bank in Indonesia that is requested to make a wire transfer of IDR 100 million or more to a non-resident must obtain a statement letter and supporting documentation from the customer.

Companies must report the movement of financial assets (such as equity in overseas companies and savings at overseas banks) and liabilities (such as overseas loans and trade payables) between residents and non-residents, including overseas transactions by residents. The requirement, applicable to companies with total assets of at least IDR 100 billion or annual sales of at least IDR 100 billion, is for transactions that were not conducted through a domestic bank or financial services company.

Foreign investors can transfer all current after-tax profits (in the currency of the original investment) and certain costs. Foreign banks, joint venture banks and more than 30 national banks are licensed to carry out foreign exchange transactions.

Getting paid

Getting paid is a critical part of any transaction and differs when conducting business overseas. You should contact your bank for comprehensive advice about payment options and the relative advantages of each option for your particular situation.

The best payment option at any particular time will depend on a number of factors:

- How much can you trust your buyer and know the company?
- Is this the first transaction? Or does it involve a company with which you have a relationship and which you trust?
- How much risk are you and your buyer prepared to take?
- How large is the transaction?
- Can you bargain for more favourable terms with this buyer?

Choosing the right payment option

When competing to win contracts, the payment terms that you offer an overseas buyer can make a significant difference.

The main payment terms that you can choose between are:

- Prepayment: receive all or some of the payment upfront
- Documentary collection: goods or services are shipped but you retain control of them until payment is received or there is a legal undertaking of future payment from the Indonesian buyer such as a documentary credit
- Open account (or open credit): provides the buyer certain credit terms by delivering your goods or services with an invoice requesting payment on a specific date after delivery.

The risk of non-payment can be managed by choosing a low-risk payment method, such as pre-payment or documentary credit. However, until you have an established relationship with your buyers or have a proven track record in exporting and supplying, these payment methods may generally not be available to you.

You are strongly advised to consult your bank or an international business consultant for more comprehensive advice about choosing the right payment option.

Managing exchange risk

Managing your exchange rate risk should be discussed with your bank. If you want to learn more prior to that discussion, the international trade section of your bank's website will provide information about their exchange rate products.

6. Visiting Indonesia

Visiting Indonesia is a crucial part of doing business there. This chapter will review the relevant information you need to know about travelling to – and within – Indonesia.

6.1 VISAS

There are four visa options for short-term business visits to Indonesia:

- Visa on arrival (VKSK)
- Business visit visa (VKU)
- Multiple business visit visa (VKUBP)
- Visa waiver facility (BVKS) – not available to Australians.

Visa on arrival (VSKS): Australian citizens are eligible to apply for a visa on arrival in Indonesia. At certain airports and seaports, the visa can be obtained directly when you arrive, regardless of the purpose of your visit (business, tourism or social-cultural). But these are not work visas and cannot be converted into another form of immigration permit. The maximum stay is 30 days, but it can be extended once for an additional 30 days. The cost is US$10 for seven days, and US$25 for up to 30 days (US$ is the payable currency for this visa). Make sure that your passport is valid for at least six months from the date of entry. Otherwise you may be refused entry.

VKU: The business visit visa allows a single business visit for up to 60 days. This visa can be extended by 30 days at a time, up to a maximum of 180 days. Australians can apply for this at their nearest Indonesian embassy or consulate. Alternatively, their Indonesian sponsor can lodge an application on their behalf in Indonesia. Visa applications submitted to the Indonesian Embassy in Canberra have an average processing time of three to five business days.

VKUBP: The multiple business visit visa allows for multiple entries into Indonesia over one year, with a maximum stay of 60 days for any entry. Nationals from all APEC countries (including Australia) are eligible for this visa.

An exit and entry permit is required for expatriates holding Indonesian residence cards in order to depart and re-enter Indonesia. Typically, these permits are now granted for six to 12-month periods depending on the job position of the expatriate.

6.2 CURRENCY

The basic monetary unit in Indonesia is the rupiah (Rp). Denominations of coins range from Rp25 to 1,000. Notes range from Rp100 to 100,000. Major foreign currencies can be exchanged for Indonesian Rupiah with banks and authorised money exchangers at airports and in all of the major cities of Indonesia. Major credit cards are also widely accepted in supermarkets, department stores and tourist centres. You may also withdraw money at airport ATMs when arriving in the country. There are several money changers in the arrivals area at the new international airport in Jakarta. Outside airports, commercial banks are always safest. Second best are registered money changers in sole-purpose shops or booths.

6.3 AIR TRAVEL AND AIRPORTS

Jakarta is the principal gateway for entry into Indonesia, while Bali is the second, attracting mostly tourists. Direct flights between major Australian cities and Jakarta are limited. The Melbourne-Jakarta route has three days of direct flights a week, Sydney-Jakarta has five days with direct flights and Perth has four days of direct flights.

The majority of these flights are serviced by Garuda, Indonesia's national carrier. Flights from Singapore to Jakarta are cheap, which can sometimes make it cheaper to fly from Australia to Jakarta via Singapore. Indonesia overall is well serviced with domestic flights between the major cities. Most flights depart from Jakarta International Airport (Soekarno-Hatta) at Cengkareng – a 60 to 90 minute drive from the centre of the city. There is an hourly air shuttle service from Jakarta (Soekarno-Hatta) to Indonesia's second-largest city, Surabaya. Services to Bandung (from Halim airport) are frequent, if a little unreliable, as bad weather can cause cancellations.

Allow at least an hour to get to Soekarno-Hatta airport from central Jakarta, as traffic jams and rain can cause major delays. The airport toll road is subject to flooding during the monsoon, although the road has been improved significantly. When departing Indonesia, ensure you have IDR 150,000 in cash for your airport departure tax. When flying within Indonesia, airport taxes vary from IDR 30,000 to 40,000.

Indonesian Apps

As many Indonesians have low end smartphones, it is common for them to only have three or four apps on their phones at any one time.

Talk: Popular communication apps in Indonesia are WhatsApp, Path and Line. All are available for free on Android, iPhone and other operating systems. WhatsApp is one the largest free messaging services in the world and is popular throughout Asia. Path is a social networking app which helps you keep in touch with friends and family. With Line you can call and message for free.

Understand: Kamus Bahasa Inggris is a free Bahasa Indonesia into English translation app. This app can operate offline, making it useful when travelling in areas with poor internet connection.

Get there: With many Indonesian cities suffering from severe traffic jams, the community-based navigation and traffic app Waze is both popular and useful. Live updates from users keeps you up-to-date on traffic conditions and possible delays – helping you get to your destination sooner. With MyTaxi you can order, track and pay for taxis. A useful feature for travellers in an unfamiliar city is that it gives a fare estimate. Payment is also made through the app, making it easier to track payments. Both of these apps are free and operate on Android, iPhone and other systems.

Eat: Through FoodPanda you can browse, order food and arrange delivery from local restaurants without the need to call or email. This app is available in major Indonesian cities such as Jakarta, Surabaya and Bandung.

6.4 GROUND TRANSPORT

Taxi fares are metered. It will cost between IDR 100,000 to 200,000 ($11.50) to get from Jakarta's international airport to the downtown area, where most large hotels are located. The air-conditioned airport bus service costs about IDR 30,000 from the airport to any of the five city zones (Rw. Mangun, Blok M, Kp. Rambutan, Bogor, Bekasi). Some of the leading hotels offer complimentary limousine services to and from the airport for hotel guests.

When using taxis in Indonesia, it is helpful to have the address of your destination written down in case the driver has difficulty understanding your pronunciation. Most taxi drivers will stop and ask locals for directions if they are unsure. But this can be a lengthy process as locals will often offer advice without actually knowing the way. Overcharging by taxi drivers is not uncommon, so you should ask hotel staff or other locals you know about the average fare for a particular journey. Ensure you have some change on hand, as taxi drivers often do not have smaller notes. A 10 per cent tip is the norm.

In Jakarta, taxis from the Blue Bird Group – in particular, Silver Bird taxis – are recommended and can be booked from most hotels or at the airport. If you have a tight schedule with several appointments, or are travelling a long distance, it may pay to book a taxi for a full day or half a day. The cost of doing this is less than a standard hire car and driver.

Since 2004, a Busway Trans-Jakarta transportation system has been operating, connecting major business districts. Further expansion of the system is expected in the near future.

Outside Jakarta, metered taxis are available in larger cities and some towns across Indonesia. Hire cars – usually chauffeur-driven – are also used and paid for by the hour or for each one-way trip. Rates differ from city to city, but they are normally from IDR 50,000 to 100,000 per hour ($5 - $11) for use within city limits. Other rates apply when going out of town. Bargaining is necessary, and rates depend on the make and year of the car.

Another common, if less comfortable, type of transportation within cities is the *bajaj* (pronounced "bahji"), a minicar tricycle seating two passengers (rather tightly) with the driver in the front. You will have to bargain for the fare.

Bus fares in Jakarta are uniform (IDR 4,000 up to 6,000 depending on the type of bus i.e. air-conditioned or not, all of them for any one-way distance within Jakarta's city limits). In other cities fares may be slightly lower.

Avis car rental
Jl. Diponegoro 25, Jakarta 10310
Tel: (62 21) 314 2900, 315 0853/4; fax: 331 845

Blue Bird taxis
Jl. Mampang Prapatan Raya No. 60
Jakarta Selatan
Tel: (62 21) 798 9000 (office);
taxi service (62 21) 794 1234;
limo service: (62 21) 794 4444

6.5 HOTELS AND DINING

Staying in Jakarta

Jakarta is a large city with traffic jams, which can mean spending hours to get from one business meeting to another. So it is important to know where you are conducting business and to choose an appropriate hotel in the vicinity. It is also advisable to schedule no more than three business meetings in a day, unless they are in close proximity to each other.

The true centre of Jakarta is Merdeka Square – home to the President's palace and the National Monument, a tall gold-tipped spire surrounded by bustling traffic. The city is vast, with a number of areas that are mini-centres in their own right. Jalan Thamrin, connecting with Jalan Sudirman to the south, is the main road through the city. But the area south of Merdeka Square is probably the most important for business travellers. Dubbed the Golden Triangle, it is considered to be Jakarta's central business district. It is home to the city's major banks, multinational businesses, superior hotels, shiny shopping malls and foreign embassies.

The Golden Triangle includes high-end hotels of major international chains including the Ritz-Carlton, JW Marriott, Four Seasons, Shangrila, Mandarin Oriental, Grand Hyatt and Pullman. The hotels in the Golden Triangle area all have business facilities and reputable bars and restaurants with varied cuisines – anything from Japanese and Cantonese to Lebanese, Italian, French, Indian and, of course, Indonesian. The prices are high, in line with the five-star service at many of these hotels. The shopping malls also offer a large array of eating choices, from sushi to burgers to gado gado or a bowl of pho. Starbucks operates throughout Jakarta, competing against other coffee chains such as Coffee Club and Coffee World.

At the many shopping malls throughout Jakarta, expect to see major global brands including Louis Vuitton, Gucci, Chanel, Cartier and plenty more. If these are the shops you're after, be sure to visit Grand Indonesia and Plaza Indonesia. Both are smart and large, rivalling shopping malls in other popular Asian shopping cities such as Hong Kong.

Business dining, entertaining

Business entertaining can be a critical relationship-building element of your visits to Indonesia. The importance of attending these events cannot be over-emphasised. If you are unable to accept an invitation for whatever reason, make your apologies meaningfully and suggest another date.

It is also important to be acquainted with local etiquette in this context. Detailed business issues are best left to the confines of the office. Use the meal as an ideal opportunity to broaden the topics of conversation and develop your personal relationship.

It is unusual to be given a knife at meal times, as forks and spoons are mainly used. Use the right hand (even if you're left handed) whenever eating, handling or receiving food as the left hand is considered to be unclean. Place your fork face down on your plate and cross your spoon over it when you finish a meal.

Indonesian food can be very spicy, but less spicy alternatives are available. Be sure to ask your host for some local advice. It is polite to leave some food on your plate as a sign that you have been well satisfied with the amount of food provided.

Remember that a majority of Indonesians are Muslims and therefore may not drink alcohol. However, most locals will not object to you drinking alcohol.

Tipping

Major hotels usually add a 10 per cent service charge to bills. Where a service charge is not applied, a tip of between five per cent and 10 per cent of the bill would be appropriate – provided the service is satisfactory. Airport porters expect IDR 5,000-10,000 per bag for luggage carried. Tipping taxi and hire-car drivers is not mandatory. But if service has been satisfactory, a basic IDR 10,000 tip is sufficient for a taxi driver. Hire-car drivers would normally expect something larger.

6.6 HEALTH AND WELFARE

Health insurance

It is strongly recommended that Australian travellers, before departing for Indonesia, take out comprehensive travel insurance that will cover any overseas medical costs. You should confirm that your insurance covers you for the whole time you are away and check what circumstances and activities are not included in the policy.

It is also recommended that Australians, before travelling, register their travel plans on the Department of Foreign Affairs and Trade (DFAT) website, in case of an emergency.

Food and water

Drink only bottled water. Avoid specific types of seafood, such as clams, and ensure that everything you eat is freshly cooked.

Other health risks

Consult a travel doctor prior to travelling and ensure that your vaccinations against diseases such as hepatitis and tetanus are up to date.

When travelling outside the major cities, carry tissues or wet towelettes to keep your hands clean after using bathrooms, as there may be no soap, towels, or paper.

Java and Bali are considered malaria free, but there is malaria in other parts of Indonesia. If travelling to other areas, ask your doctor what medication is best to carry with you.

Dengue fever, a viral disease transmitted by certain types of tropical mosquitoes (distinguished by their black and white stripes) is currently endemic throughout most of Asia, including Indonesia. The disease is prevalent in tropical urban areas after rainfall. Speak to your doctor before travelling to Indonesia about prevention and treatment. Be particularly aware of the symptoms of dengue fever, and wear insect repellent when outdoors in any area where there may be bodies of still water (even as apparently innocuous as water saucers around pot plants).

Hospitals and medical services

Public healthcare

While Indonesia is not known for having quality healthcare systems, Jakarta does have many of the country's best-equipped public facilities. But the relatively high standards mean many of the city's better hospitals are in high demand and, therefore, sometimes overcrowded. However, none of the public facilities are internationally accredited.

Private healthcare

Private hospitals and clinics are the best option for foreigners seeking the best healthcare services. Indonesia's private healthcare sector has seen significant changes in recent years with foreign investment allowed since 2010. Despite the growth and emergence of private facilities in the city, foreign doctors can only be hired as medical consultants.

Jakarta is home to two of the nation's five internationally accredited private hospitals: Bintaro Premier Hospital and Jatinegara Premier Hospital.

Personal safety

Treat Indonesians with respect and always stay alert. Remember that the vast majority of Indonesians are good people who want you to be safe and feel welcomed in their country and who themselves are strongly opposed to terrorism.

There have been a number of terrorist bombings in Jakarta since 2002, including attacks on the police headquarters, Parliament, UNESCO's Jakarta office building, an American fast-food franchise at Jakarta airport, the JW Marriott Hotel and the Australian Embassy.

Below are some common terms to use if you are sick:

- An upset stomach is *sakit perut*
- A headache is *sakit kepala*
- *Masuk angin* means you have a cold
- *Saya mual* if you feel nauseous
- A *dokter* is a medical practitioner
- A *dokter gigi* is a dentist.

The Australian government advises that it is impossible to predict the timing and location of any future attacks. The safety of business visitors to Indonesia therefore cannot be guaranteed. However, there are several things you can do to improve your safety:

- Exercise caution in public places, such as nightclubs, bars, Western-style restaurants and fast food outlets, shopping malls, outdoor recreational areas, public and commercial buildings, transport terminals, and places of worship
- Stay away from areas of Indonesia where there are insurgencies and inter-communal problems. For more information, refer to the DFAT website
- Be particularly careful throughout Java and Bali and in cultural and tourist locations on other islands
- Be particularly vigilant at international schools. In response to terrorist threats against them, some international schools have very high levels of security in place, so do not expect to make a casual visit. Always make an appointment
- Be aware that most good hotels, upscale commercial buildings and other important locations already have substantial security procedures in place. Procedures include the inspection of the undersides and boots of vehicles permitted on to the premises and bag inspections and metal-detection scanning for individuals.

Apart from the threat of terrorism, there are some other public safety and security issues to be aware of in Indonesia. To increase your personal security, DFAT recommends that you:

- Avoid travelling alone at night
- Stay sober and alert
- Use reputable firms when taking a taxi or a hotel limousine, preferably booked by telephone or arranged in advance by your travel agent or hotel
- Register your travel plans on smarttraveller.gov.au. That way, the Australian government can contact you if they receive specific security warnings
- Where possible on longer journeys, travel in a convoy
- At airports, check in and go through security promptly. Do not linger near the street. On arriving, spend as little time outside the secure area as possible – get your bags, get into your transport and leave
- Demonstrations are part of the Indonesian political culture. Most are peaceful but it is best to avoid large crowds on the streets
- Never lose sight of your credit cards during transactions, as credit card fraud is widespread in Asia
- Avoid groups that are gambling. Some foreigners have been held against their will, with ransoms demanded for their release, after becoming involved in illegal gambling
- Stay clear of any apparently abandoned bags, boxes or other containers in public places or buildings
- Be prepared for electricity blackouts.

Penalties for drug crimes

Indonesia applies the death penalty to those convicted of dealing or trafficking drugs. If you are convicted and sentenced to death for drug offences, the Australian government cannot override the laws and penalties imposed by another country, and is very limited in its ability to appeal for clemency.

Climate and clothing

Dress is normally informal in Indonesia due to the warm, humid climate and clothing made of light fabrics is recommended. Highland areas are noticeably cooler, and carrying a light sweater in these areas may prove useful.

Accepted attire for men is a business shirt and long pants. However, a jacket and tie are required for more formal occasions. Long-sleeved batik or hand-woven shirts are acceptable for evening functions.

For women, dresses, blouses and long pants are appropriate. Shoulders should be covered at all times unless on the beach or engaging in sport.

USEFUL PHRASES FOR GETTING AROUND INDONESIA	
Hello	Hi/Halo
Good morning	Selamat pagi
Good afternoon	Selamat siang
Good evening	Selamat sore
Good night	Selamat malam
Thank you	Terima Kasih
Good/Bad	Baik/Buruk
My name is	Nama saya . . . .
I cannot speak Indonesian	Saya tidak bisa bicara Bahasa Indonesia
I don't understand	Saya tidak mengerti
I'm sorry	Maafkan saya
How much?	Berapa harganya?
Expensive	Mahal
Help!	Tolong!
Straight on/ continue	Terus
Turn left/Turn right	Belok kiri / Belok kanan
Stop here	Berhenti di sini
Slow down	Pelan – pelan
Change to the left-hand lane	Pindah ke jalur kiri
Change to the right-hand lane	Pindah ke jalur kanan
U-turn	Putar balik

Public holidays for 2015

Day	Holiday	Official name	Comments
Thursday	1 January	New Year's Day	
Saturday	3 January	Maulidur Rasul	Birthday of the Islamic prophet Muhammad
Thursday	19 February	Chinese New Year	1st day of 1st month of Chinese calendar
Saturday	21 March	Hari Raya Nyepi	Balinese New Year
Friday	3 April	Good Friday	International Catholic holiday
Friday	1 May	May Day	World Labour day
Thursday	14 May	Ascension Day	40 days after Easter
Saturday	16 May	Isra Miraj	Ascension of the Prophet
Tuesday	2 June	Waisak Day	Birth of Buddha
Friday	16 July - 21 July	Hari Raya Puasa	Date varies according to the Islamic calendar
Monday	17 August	Independence Day	Marks the start of the revolution against the Netherlands in 1945
Thursday	24 September	Idul Adha	End of Ramadan & Idul Fitri
Wednesday	14 October	Muharram	Islamic New Year
Friday	25 December	Christmas Day	

Public holidays for 2016

Day	Holiday	Official name	Comments
Friday	1 January	New Year's Day	
Sunday	7 February	Chinese New Year	1st day of 1st month of Chinese calendar
Wednesday	9 March	Hari Raya Nyepi	Balinese New Year
Friday	25 March	Good Friday	International Catholic holiday
Sunday	1 May	May Day	World Labour day
Thursday	5 May	Ascension Day	40 days after Easter
Thursday	5 May	Isra Miraj	Ascension of the Prophet
Saturday	21 May	Waisak Day	Birth of Buddha
Thursday	7 July	Hari Raya Puasa	End of Ramadan
Friday	8 July	Hari Raya Puasa	Idul Fitri
Thursday	18 August	Independence Day	Marks the start of the revolution against the Netherlands in 1945
Sunday	11 September	Idul Adha	Date varies according to the Islamic calendar
Sunday	2 October	Muharram	Islamic New Year
Sunday	25 December	Christmas Day	

7. Engage with us

Asialink Business

Asialink Business provides high-calibre opportunities for Australian businesses to build the Asia capability of their executives and team members.

Our business-focused cultural competency programs, professional development opportunities and practical research products allow businesses to develop essential knowledge of contemporary Asian markets, business environments, cultures and political landscapes.

Supported by extensive market research and customer intelligence, Asialink Business is uniquely positioned to provide tangible support to Australian businesses wishing to maximise their economic opportunities.

To start a conversation about how we can help build Asia capability in your business, please get in touch.

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Victoria 3010 Australia
Tel: +61 3 8344 4800   Fax: +61 3 9347 1768
Web: www.asialink.unimelb.edu.au/asialink_business

PwC

PwC Australia helps organisations and individuals create the value they're looking for. We're a member firm of a network of firms in 157 countries with more than 195,000 people who are committed to delivering quality in assurance, advisory, tax & legal, and private client services.

If you're looking to grow your business into Indonesia, we bring a combined knowledge of markets and our connected international network to help you succeed. Our experience and deep cultural understanding is how we help our clients to navigate the opportunities and challenges involved in investing away from home.

Web: www.pwc.com.au/asia-practice

Resources and contacts

Australian Embassy, Indonesia
Jalan H.R. Rasuna Said Kav C 15-16
Jakarta Selatan 12940
Tel: +62 21 2550 5555
Fax: +62 21 522 7101, 2550 5467
Web: www.indonesia.embassy.gov.au/jaktindonesian/home.html

Embassy of the Republic of Indonesia
8 Darwin Avenue
Yarralumla ACT 2600
Tel: +61 2 6250 8600
Fax: +61 2 6273 6017
Web: www.kemlu.go.id/canberra

Bank Indonesia
www.bi.go.id/web/en

Directorate General of Customs and Excise
www.beacukai.go.id/wwwbcgoid/index.html

Directorate General of Immigration
www.imigrasi.go.id/

Indonesian Attorney General
www.kejaksaan.go.id/index.php

Indonesia Investment Coordinating Board (BKPM)
www5.bkpm.go.id

Indonesian Statistics Office
www.bps.go.id/eng/

Ministry of Manpower
www.depnakertrans.go.id/?

Directorate General of Taxation
www.pajak.go.id/?lang=en

Trade Indonesia
www.tradeindonesia.com

Useful websites

In addition to the websites mentioned in this country starter pack, these websites may be useful for establishing a business in Indonesia.

Asian Development Bank
www.adb.org

ADB offers good background data on its member countries. Click on the "Regions and Countries" tab at the top of the home page.

Australia Indonesia Business Council
www.aibc.com.au/

The Australia Indonesia Business Council (AIBC) is a non-profit business association involved with the promotion and facilitation of trade and investment between Australia and Indonesia.

Austrade
www.austrade.gov.au/industrycountry

Austrade's website provides country and industry data as well as links to other sources.

CIA World Fact Book
https://www.cia.gov/library/publications/resources/the-world-factbook/

Detailed and up-to-date country profiles.

Corporate Information
www.corporateinformation.com

Offers extensive links to sites offering corporate information in over 80 countries.

Digitalbusiness.gov.au
www.digitalbusiness.gov.au

This website provides guidance for small businesses, not-for-profits and community organisations to establish and/or enhance their online presence so that they can access the benefits of participating in the digital economy.

Export Finance and Insurance Corporation
www.efic.gov.au/

Efic provides information on overseas markets and support to Australian businesses looking to expand overseas.

Federation of International Trade Associations (FITA)
www.fita.org/webindex.html

Provides links to information on a wide range of international trade and import/export topics. It also has a trade leads service.

Global Edge
globaledge.msu.edu/resourceDesk/

International business portal providing country guides, links to global information resources and a discussion forum.

Ozforex
www.ozforex.com.au/

Provides current and historical exchange rates for a variety of currencies.

IBIS World
www.ibisworld.com

Produces reports on a range of industries.

World Bank Doing Business Report
www.doingbusiness.org/

The annual World Bank Doing Business Report measures business regulations in 189 economies and selected cities. It ranks countries on areas such as infrastructure and approvals processes.

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Asosiasi Penyelenggara Jasa Internet (APJI)
Australia Indonesia Business Council
Badan Koordinasi Penanaman Modal (BKPM)
Canadian Trade Commissioner
Export Council of Australia
International Labour Organisation
International Monetary Fund
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McKinsey Global Institute
Nathan Gray, Partner, AsiaAustralis
New Zealand Trade and Enterprise
Organisation of Economic Cooperation and Development
Transparency International
University of Sydney
World Bank
World Economic Forum
World Trade Organisation

Note on currency

All money amounts are in Australian Dollars unless otherwise indicated. Exchange rate used is the 2014 average from Ozforex.

A$1 = US$0.9028

A$1 = IDR 10688.8160

Disclaimer

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