U.S. COMMERCIAL SERVICE
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U.S. Country Commercial Guides

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Indonesia

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Doing Business in Indonesia

Market Overview

Indonesia is Southeast Asia's largest economy with a GDP of 932 billion in 2016 (USD), ranking 8th in the world based on purchasing power parity, and averaging over 5% growth over the last decade. Growth is projected by the IMF to reach 5.1% for 2017 due to strong private consumption. President Joko Widodo (known as "Jokowi") took office in October 2014 and has pledged to improve infrastructure, diversify the economy, and reduce barriers to doing business in Indonesia as a means of increasing economic growth.

Over the past decade Indonesia has enjoyed steady economic growth, though less than needed to pull the country into upper middle-income status. Sound macroeconomic policies, combined with growing domestic demand and high commodity prices, propelled economic expansion in recent years, but protectionist policies, corruption at all levels of government, poor infrastructure, weak rule of law, and labor rigidity continue to pose challenges.

Beginning in September 2015, the Government of Indonesia (GOI) announced a series of economic reform packages in an effort to spur its GDP growth and encourage foreign investment. The announced reforms are a positive signal of the Jokowi administration's desire to improve the business climate; however, the implementation and impact of the policy reforms remains limited. Nonetheless, the Indonesian market has many positive attributes.

Indonesia has a GDP per capita of $3,604 ($11,700 at PPP) that exceeds many of its ASEAN neighbors such the Philippines and Vietnam, and with 258.8 million people (IMF), Indonesia's economy comprises nearly half of ASEAN economic output.

Indonesia is a thriving democracy with significant regional autonomy. It is located on one of the world's major trade routes and has extensive natural resource wealth distributed over an area the size of the United States and comprised of 17,508 islands (CIA World Factbook).

According to Euromonitor International, Indonesia has the world's fourth largest middle class with 17.3 million households as of 2014, and is forecasted to expand to around 20 million households by 2030.

Globally, Indonesians are the fourth largest users of Facebook (87 million, April 2017). According to Statista, in May of 2016, Indonesia was found to have the third highest number of active Twitter-users in the world, after the United States and

India. Also according to Statista, in May of 2017, Indonesia had the fifth highest number of internet users in the world at 132 million.

Market Challenges

The business environment in Indonesia is challenging, with Indonesia ranked 91 out of 190 countries in the Ease of Doing Business 2017 report by the World Bank. U.S. firms encounter complex bureaucratic and regulatory requirements which make it time-consuming to enter the market.

Indonesian infrastructure and service networks have not been developed or maintained to keep pace with the booming consumer-led economy, causing increased transaction costs and inefficiencies that hamper exporters and investors. Deregulation has reduced some barriers, but non-tariff barriers remain widespread and the bureaucracy can still be cumbersome. Laws are often opaque or conflicting. Import licensing procedures and permit requirements, product labeling requirements, pre-shipment inspection requirements, local content and domestic manufacturing requirements, and quantitative import restrictions impede U.S. exports.

Although significant anti-corruption measures have been undertaken by the Indonesian government, corruption remains a concern for many businesses looking to operate within Indonesia. Indonesia ranked 90th on Transparency International's Corruption Perceptions Index 2016. Companies are recommended to have a solid due diligence process in place and should consult with the U.S. Commercial Service prior to signing with agents and distributors.

Although improving, significant rule-of-law issues persist. Formal dispute settlement mechanisms are not considered effective, and business and regulatory disputes— which would generally be considered administrative or civil matters in the United States—may be considered criminal cases in Indonesia. The court system is widely viewed as corrupt. In addition, international arbitration is widely discouraged by the government of Indonesia.

Competition from 3rd country firms such as Singapore, China, Japan, Australia, Korea, Russia, France, and other regional players is intense, and U.S. firms often have to significantly adapt their business model and pricing scheme to compete effectively.

Official trade statistics understate market opportunities and American presence given the large numbers of U.S. shipments that are recorded as U.S. exports to Singapore, but which ultimately enter Indonesia, and U.S. sales in Indonesia that U.S. multinationals source via third countries.

Market Opportunities

Consumer-related market opportunities continue to lead growth in the world's fourth- largest country, and expansion in the retail, health, education, telecom and financial services sector have boomed in the last few years. The Indonesian consumer is ranked as one of the most confident in the world, and 50% of Indonesia's 255 million citizens are under the age of 30.

Indonesia's aviation market is growing at 20% per year and favors U.S. products. Aircraft replacement parts and services is a valuable and significant market. There is also demand for air traffic control and airport logistics services and ground support equipment.

A competitive and expanding banking market offers significant opportunities for IT and banking equipment, software and technology providers.

Indonesia's under-developed public infrastructure remains a major national challenge and could present significant opportunities in aviation, rail, ports and land transport, as well as in municipal infrastructure projects such as water supply and wastewater systems.

As the Indonesian military expands its budget, there are opportunities for U.S. defense manufacturers to sell a range of military aircraft, vehicles, communications systems, spare parts, and maintenance services. Monitoring and protection of sea-borne traffic for both national security and fisheries enforcement presents new opportunities.

Important opportunities outside of Jakarta remain in energy and electricity transmission services. The Government of Indonesia has announced its intention to increase electricity generation by 35,000 MW by 2019. It is not going to meet that goal butgrowth in power generation projects, conventional and renewable, and including Independent Power Producers, is expected to continue for the next decade.

Telecommunications equipment and services and satellites remain excellent areas for American products and services, which have a comparative advantage technologically.

Education and professional training, medical equipment and high-quality American agricultural commodities all retain their market edge even with premium prices.

Emerging opportunities include palm oil, biofuel processing, clean energy and technology to improve local production capacity, and potentially cold storage and fish processing equipment and services.

Market Entry Strategy

U.S. companies must visit the Indonesian market in order to properly choose an appropriate agent or distributor in Indonesia. Appointment of a representative requires care, since it is difficult to terminate a bad relationship. Qualified representatives will not take U.S. principals seriously unless they make a commitment to visiting the market on a regular basis. **Patience, persistence and presence** are three key factors for success in Indonesia.

Important factors affecting purchasing decisions in Indonesia are pricing, financing, technical skills, and after-sales service. Firms should be prepared to invest in training for their local staff, from entry-level personnel to experienced managers.

Indonesian non-financial firms often depend on trade financing with nearly 50% of their financing obtained from abroad via loans, bonds, and other credit. U.S. Ex-Im Bank, OPIC, and SBA are all suitable providers of trade and investment financing for local projects.

Although it is possible for U.S. companies to sell directly to the government and state-owned companies, local agents or distributors are often critical (and at times, required by law) for successful project development and delivery of products or services. Many government tenders are awarded based on the proven track record of providers or long-established relationships between the government agency and an agent or distributor.

Political Environment

Political Environment

For background information on the political and economic environment of Indonesia, please click on the link below to the U.S. Department of State's U.S. Bilateral Relations Fact Sheet.

Selling US Products & Services

Using an Agent to Sell US Products and Services

Foreign companies who wish to sell their products in the Indonesian market are required to appoint a local agent or distributor pursuant to Ministry of Trade (MOT) Regulation No. 36/1977 on Termination of Foreign Business Activities in the Trade Sector as amended and by Government Regulation No. 15/1998. Registration of an Indonesian agent or distributor with the Directorate of Business Development and Company Registration at the MOT is mandatory under Regulation of the MOT No. 11/M-DAG/PER/3/2006.

An agent is a national trading company acting as mediator to act for and on behalf of the principal on the basis of agreeing to undertake marketing without transferring rights to physical goods and/or services owned/controlled by the appointing principal. The principal may be a manufacturer or supplier, and may be located offshore or onshore. The agent never acquires any rights to the goods and services. A distributor is a national trading company acting for and on behalf of the company on the basis of an agreement to purchase, store, sell as well as market goods and/or services owned or controlled.

Any business operating as an agent or distributor must register with the MOT and obtain Registration Identity, hereinafter called STP (Surat Tanda Pendaftaran). STP is evidence that a company has been registered as an agent and/or distributor issued by the Director of Business Development and Corporate Registration, Ministry of Trade. If the principal is offshore, the agreement must be notarized and certified by an Indonesian trade attaché at an Indonesian Embassy or Consulate and submitted to the Ministry of Trade. These agreements may adopt the law of any country, but if they are written in a language other than Indonesian, they must be translated by a sworn translator. Depending on the type of goods being imported, certain other memberships, recommendations and/or licenses must be obtained and produced.

The appointment of an agent or distributor can be realized by: a producer principal; a supplier principal on the basis of approval from producer principal; foreign investment companies operating in the trading field as distributors or wholesalers; or, representative offices of foreign trade companies. Many Indonesian importers represent multiple foreign manufacturers and product lines. Large conglomerates often establish discrete company units to specialize around a product category. Medium and smaller importers tend to specialize in a narrower range of goods, but are open to adding an unrelated product line if it appears to be profitable.

In many cases, foreign companies have established close connections with Indonesian importers, allowing the two companies to function as one. The Indonesian company acts as the importer and distributor, and the foreign company promotes its products, sometimes seconding expatriate staff to its Indonesian distributor/partner. A more active role for the foreign firm can be arranged through a management contract, which can take many forms, such as technical assistance agreements; management agreements; or combined management/financial agreements.

Establishing an Office

The Indonesian Investment Coordinating Board (BKPM) provides "**One Stop Services**" for certain types of direct investment approvals from both domestic and foreign investors. A Foreign Company must establish itself as a legal entity in Indonesia, often called a Foreign Investment Company, or "*PT. Penanaman Modal Asing (PT. PMA).*" A Foreign Company that wishes to access the Indonesian market may also establish itself as a Representative Office and not a branch office. Some business sectors require a foreign company to establish a local partner in which the foreign company is allowed up to a certain percentage of ownership depending on the sector. U.S. companies that are interested in establishing a legal entity in Indonesia should first check the latest Negative Investment List, which was released May 24, 2016 as Government Regulation No. 44/2016. The Negative Investment List revision is one of the Indonesian Government's commitments to the ASEAN Economic Community (AEC) to boost both foreign and domestic investment activities. The revision of the Negative Investment List opens some previously-closed sectors to foreign investors. To learn about businesses that are closed or conditionally open for investment go to.

Before establishing an office in Indonesia, investors need to think whether using a local partner would be more effective in penetrating the local market. A foreign company can also establish a representative office. Three of the most common types of representative offices in Indonesia are: (1) Foreign Representative Office (Kantor Perwakilan Perusahaan Asing); (2) Foreign Trade Representative Office (Perwakilan Perusahaan Perdagangan Asing); and (3) Foreign Construction Services Representative Office.

To find out requirements in setting up an office in Indonesia, please contact BKPM's representative office in the U.S.:

Indonesian Investment Coordinating Board

370 Lexington Avenue Suite 1903

New York, NY 10017

United States

Tel: (646) 885-6600

Fax: (646) 885-6601

Contact person: Elsa Noviliyanti

Email: enoviliyanti@bkpm.go.id

or

Indonesian Investment Coordinating Board

Jl. Jend. Gatot Subroto No. 44

Jakarta 12190

Indonesia

Tel: (62-21) 525-2008

Fax: (62-21) 520-2050

E-mail: info@bkpm.go.id

Franchising

Franchises facilitate the transfer of know-how and managerial expertise to the franchisee companies while simultaneously allowing the franchiser to quickly establish a presence in the country. Under a typical franchising agreement, the franchiser receives royalties and fees as stipulated in the contract. In exchange, the franchisee has the right to use and manufacture copyrighted, patented or service-marked materials identifying the enterprise. The franchiser typically provides training and organizational guidance in return for a guarantee that the franchisee will follow these operational directions.

In particular, there are two regulations that are of interest to U.S. firms interested in establishing or expanding a franchise in Indonesia. Ministry of Trade Regulations No. 57 and 58 define the requirements and procedures for a franchisor to obtain a STPW (Surat Tanda Pendaftaran Waralaba or Franchise Registration Certificate). Before entering an agreement with a franchisee, a franchisor in Indonesia must register a franchise prospectus with the Ministry of Trade to obtain the STPW. According to this regulation, instead of directly registering the franchise prospectus, a franchisor must first submit a copy of its draft master franchise agreement.

These regulations also prohibit franchisors from appointing franchisees with whom they already have a relationship in order to provide opportunities for new franchisees and to prevent one group from gaining a monopoly. In the event a franchise agreement is terminated unilaterally by the franchisor before the expiration of the agreement term, the franchisor cannot appoint a new franchisee for the same area until both parties reach an agreement or until there is a legally binding court verdict.

IMPORTANT: Under the new regulation, franchisors and franchisees may only engage in business activities as specified in their business licenses. The regulations require franchises to use local components for at least 80% of their raw materials, business equipment and merchandise.

In certain cases, the Ministry of Trade may issue a permit to a company to use domestically-produced goods and/or services equating to less than 80% of the raw materials, business equipment and merchandise based upon a recommendation by the ministry's appointed "assessment team." The regulation also states that franchisors should select local small- and medium-sized businesses as franchisees or suppliers if they fulfill the requirements established by the franchisors. The regulation limits the number of company-owned outlets operated by franchisors to 150 outlets for "modern stores" such as minimarkets, supermarkets, department stores, hypermarkets and wholesalers, and 250 outlets for restaurants and cafes.

For more information on franchising regulations in Indonesia, please contact:

Directorate of Trade Development

Directorate General for Domestic Trade

Ministry of Industry and Trade

Jl. M.I. Ridwan Rais No. 5

Jakarta 10110

Tel: (62-21) 3858171 Ext. 1137

Fax: (62-21) 23528531

Website: www.kemendag.go.id/en

Direct Marketing

Direct marketing is used in Indonesia to sell many kinds of products, from insurance to sewing machines. Companies such as Amway, Herbalife and Tupperware have built up large businesses by conducting direct marketing through local distributors. Independent Indonesian companies have had success emulating these methods.

Joint Ventures/Licensing

Indonesia continues to maintain a Negative Investment List which includes some sectors that are closed entirely and some open with conditions. Apart from the Negative Investment List industries, 100 percent foreign ownership is allowed. As a practical matter, a local joint venture partner is often essential for success in this

market, for the same reason that an active Indonesian agent or distributor has advantages over a foreign trade representative office. The choice of an Indonesian joint venture partner is critical for many reasons, especially for knowledge of the local environment and contacts. A few firms provide background and credit-type reports on Indonesian entrepreneurs and firms.

A partnership in Indonesia is difficult to dissolve. Consequently, the first choice has to be the right choice. Business sense is as crucial to any commercial endeavor in Indonesia as it is anywhere else; contacts alone, while important, cannot substitute for business skills in an Indonesian partner.

Because Indonesians place great importance on personal relationships and mutual understanding, partnerships tend to be based primarily on genuine accord, with the written contract playing a less significant role. It is therefore important that any agreement be well understood by both sides. A contract over which there are conflicting interpretations is certain to cause future problems. In any case, a soundly written legal agreement is strongly encouraged, despite the weakness of the Indonesian legal system for enforcing contracts.

In some cases, licensing arrangements for products and services are more cost-effective options for U.S. companies doing business in Indonesia, but firms should apply the same cautions recommended for joint venture partners.

For more information please visit the Indonesian Investment Board website.

Selling to the Government

Although it may be possible in some cases to sell directly to the government, there is good reason to use the services of an agent or distributor for the early stages of project development, delivery, installation and service needs. Traditionally, most government procurement decisions have been based on long-established relationships and may exclude those participants who are not well known in the market.

New-to-market U.S. firms need the careful advice of local representatives to avoid wasting time and money participating in a tender. U.S. firms also need to be aware of the cultural differences of communicating in Indonesia. An agent may find it difficult to share bad news with a partner or may not be completely candid about the company's chances of winning a tender. A close relationship with one's agent is the best way to ensure open communication.

In February 2009, through Presidential Instruction (Inpres) No. 2/2009, the GOI issued new regulations which stipulate the use of 456 kinds of local products (in 21 categories such as agriculture equipment, defense equipment, chemical, EPC

services for electrical, electronics and telecommunication equipment) for projects owned by the government, state-owned companies, and production sharing contractors. The Ministry of Industry has tasked the Finance and Development Supervisory Agency (BPKP) to oversee implementation of programs that support the Inpres in hopes of strengthening domestic manufacturing.

The Presidential Decree No.70/2012 regulates the procurement process for government agencies, including the state-owned companies, the Indonesian military and the Indonesian Police in Indonesia's efforts to become a global provider of defense technology and value-added services. Although it may be possible in some cases to sell directly to the government, we recommend that U.S. companies work with an agent or distributor in the early stages of project development, delivery, installation and service needs.

For other sales to the Indonesian government, U.S. firms should become familiar with the "Blue Book" and the "Green Book", which list major projects identified by the government as essential to national development priorities. Both are published annually by the National Planning Agency (BAPPENAS) and constitute the official list of projects open to foreign government assistance and other sources of external financing. Most projects listed in these books require "soft loan" (low-interest rate) financing. While the U.S. government does not offer soft-loan financing, the U.S. Ex-Im Bank may be able to match tied-aid offers that fall within OECD guidelines. Indonesia has rarely accepted offers that would displace other donor commitments made through the annual World Bank-sponsored Consultative Group on Indonesia (CGI).

U.S. firms should also familiarize themselves with opportunities available through the Asian Development Bank, or World Bank-funded projects.

Many governments finance public works projects through borrowing from the Multilateral Development Banks. Please refer to "Project *Financing"* Section in *"Trade and Project Financing"* for more information.

Distribution & Sales Channels

Indonesia's businesses are organized along classic lines, with the full spectrum of agents, distributors and other intermediaries represented in the economy. Finding a stocking distributor can be a problem due to a general unwillingness to assume the carrying charges involved with warehousing. In addition, pervasive corruption, especially among customs officials, makes the use of offshore warehouses, especially in Singapore, attractive. Traffic congestion and weak infrastructure often make it very expensive to ship product long distances within Indonesia from a central warehouse.

Express Delivery

All of the major express delivery services in the United States are also available in Indonesia, including Fed Ex, UPS and DHL. In addition, within Indonesia, there are PT. Tiki Jalur Nugraha (TIKI JNE) which is the market leader, Indonesian Post Office, PT. Republic Express (RPX) which is FedEx's local partner, and several other logistic companies (such as Pandu Logistic, Wahana Logistic, First Logistic, etc.) including the most trendy e-commerce site, GO-send by Gojek (Indonesia's first hyperlocal transport, logistics and payment startup).

Selling Factors & Techniques

American products are perceived by Indonesians as expensive but durable with limited after sales service. Therefore, in addition to pricing, U.S. companies should compete on after sales service which includes providing access to customer service and spare parts.

eCommerce

Overview

Indonesia's youth demographic – about 50% of the population is under 30 – are more technically skilled and will also positively affect the growth of e-commerce. It is forecasted that the number of e-commerce users will reach 39.3 million by 2020 with an average 12% year on year growth rate. In Indonesia's emerging market, the middle class is set to become the primary purchasing force as their income rises. By 2030, Indonesia's middle class is expected to expand to around 20 million households, with a disposable income of $11,300 per household – huge growth from the middle class that sat at 17 million households with $6,300 disposable income per household in 2014. With the rising purchasing power of the middle, the country's e-commerce could offer a strong market for online shopping - current projections put the country's online market at $130 billion by 2020. In 2016 Indonesians spent about $228 per user on online shopping.

Current Market Trends

In a country of 255 million inhabitants with over 382 million active SIM cards, mobile devices are the main means with which Indonesians carry out e-commerce. Air travel is increasingly being arranged through websites such as Tiket.com and Traveloka while accommodations are arranged through booking.com and even AirBnb. According to AirBnb, arrivals in Indonesia have increased 94% in the last 12 months. With major cities like Jakarta, Bandung and Surabaya experiencing traffic jams, this leaves its citizens often stuck in traffic for hours which leads many people to engage in online shopping and e-commerce to pass the time. Another growing trend is for inhabitants in major cities to use applications such as

Go-Jek to arrange for food delivery, cleaning service, massage, buying movie tickets, as well as its original purpose of ordering a motorbike or taxi for transportation.

Domestic eCommerce (B2C)

Indonesia online retailing is blossoming and has been the biggest in the region due to its hefty population despite having weak IT infrastructure. The market has witnessed a rise in the number of new local wholesalers selling products online. Lazada, Blibli, Zalora, Bhinneka, MatahariMall, Traveloka, Tiket.com, Pegipegi are some of the leading online marketplaces in the country.

Cross-Border eCommerce

Despite having no local presence, Amazon and Ebay are the most popular B2C sites in Indonesia.

B2B eCommerce

The rapid growth in the online marketplace has attributed to the development of B2B eCommerce startup companies such as ralali.com and Bizzy.com.

eCommerce Intellectual Property Rights

E-commerce remains governed by a complex set of laws and regulations. Some laws and regulations that apply to the e-commerce sector include:

- Law No. 11/2008 on electronic information and transactions. This law, which was intended to promote open and fair electronic commerce, has been criticized as creating investor uncertainty by failing to define key terms.
- Law No. 7 /2014 on trade.
- Bank Indonesia Regulation No. 11/12/PBI/2009, as amended by Bank Indonesia Regulation No. 16/8/PBI 2014 regarding E-money.
- Circulation Letter of Bank Indonesia No. 16/11/DKSP Year 2014 regarding E-money operations.
- Minister of Communications and Information Regulation No. 23 of 2013 regarding Domain Name Management.
- Law No. 8/1999 regarding Consumer Protection

Popular eCommerce Sites

Lazada.co.id, Tokopedia.com, Bukalapak.com, Elevania.co.id, Mataharimall.com, Blibli.com, Bhinneka.com, Zalora.co.id, Rakuten.com, Amazon.com, Ebay.com, Traveloka.com, Tiket.com, Pegipegi.com, Agoda.com.

Online Payment

Although the Indonesian e-commerce industry has been thriving, there is plenty of room for further growth, as it only accounts for less than 1% of the total Indonesian retail sales. In order to capitalize on this opportunity, issues with inadequate infrastructure, poor payment systems, and logistics have to be addressed. For instance, although the number of credit card users jumped 60% in the past five years to around 15 million, 70% of e-commerce payments are completed with bank transfers and only 15% with credit cards. And also, delivery is too slow and expensive due to challenging geography paired with poor infrastructure, and absence of high-tech logistics companies. This represents valuable opportunities for e-commerce technology, applications, and other supporting products and services.

Mobile eCommerce

Indonesia has established itself as one of Asia's foremost mobile-first nations, with an Indonesian Internet Service Provider Association (APJII) report in 2016 that traffic from 63.1 million internet users (47.6% of total internet users) originated from mobile devices. And according to reports from some online shopping malls, about 70% of the online shoppers shopped on their mobile devices like smartphones rather than desktop computers. The majority of the growth in revenue, however, can be explained by the increase in the average revenue per user.

Major Buying Holidays

Indonesia has many religious, traditional, and national holidays such as Chinese New Year, Eid Al Fitr, Christmas, Islamic New Year, Nyepi, Independence Day, and school holidays where many companies offer unique discounts and coupons.

Social Media

50% of the total population, 132.7 million people, is connected to the internet, making Indonesia the 5th largest market in the world. The capital of Indonesia has been named the world's number one "Tweeting City", Indonesia has the 4th highest number of active Twitter users and the 4th highest number of Facebook users in the

world. Instagram, Whatsapp, Line and Path are some of the more popular platforms. According to eMarketer, almost 90% of Indonesia's social network users are under the age of 34 (54% of them between 16 and 24).

Trade Promotion & Advertising

Advertising revenue in Indonesia was up 8% in 2016 exceeding $12 billion[1].

The high growth rate of advertising spending in Indonesia can be largely explained by the growth of digital advertising. The main factors driving this shift to digital are fast-growing mobile connectivity among Indonesians and their hyper-social online character, as evidenced by the very high number of social media users in Indonesia.[2] The expected growth in the e-commerce market will also push digital advertising to continue growing quickly. According to eMarketer's forecast published in Sep 2015, digital ad revenue will continue to grow at an average rate of 56% through 2019, and its share of total advertising expenditures in Indonesia will rise from 7.3% to 25%.

While digital advertising is growing the fastest, television remains the dominant medium for both coverage and spending. In 2015, about $6 billion or 55% of the total advertising spending in Indonesia was forecasted to be on television[3] and at least 97% of the Indonesian population watched TV each month[4]. Currently, Indonesia has 394 television stations nationwide[5], including national TV stations like Global TV, Indonesiar, Metro TV, MNC TV, RCTI, Kompas TV, SCTV, Trans TV, Trans7, TVOne, etc., local television stations like Elshinta TV, Radar TV Banten, Baraya TV, DAAI TV, etc., and one state-owned station, TVRI.

Newspapers and radios used to be the second and third most effective advertisement medium in Indonesia, reaching over 70% and 50% of the Indonesian population respectively as recently as 2009. Their popularity, however, is waning as digital media takes over. In 2016, the Internet achieved a penetration level of 50% of the Indonesian population, reaching 132 million users[6]. Despite its declining popularity, however, newspaper advertising spending is still the second largest after TV, taking about 30% of the total ad spending in Indonesia.[7] Advertising in

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[1] IHS Markit, Market Monitor: Advertising in APAC, March 15, 2017.
[2] Redwing-asia.com. 'Technology is changing the face of advertising in Indonesia'. N.p., 2016. Web. 17 May 2016.
[3] statista.com. 'Advertising expenditure in Indonesia from 2008 to 2015, by medium (in million U.S. dollars)'. N.p., 2015. Web. 17 May 2016.
[4] Redwing-asia.com. 'Indonesia's US$10billion media market'. N.p., 2012. Web. 17 May 2016.
[5] Klikbekasi.co. 'Jumlah Stasiun Televisi di Indonesia Capai 394'. N.p., 2015. Web. 18 May 2016.
[6] Indonesia Network Information Exchange (APJII).
[7] statista.com. 'Advertising expenditure in Indonesia from 2008 to 2015, by medium (in million U.S. dollars)'. N.p., 2015. Web. 17 May 2016.

local newspapers is still a recommended way to introduce new products, particularly in areas of purchasing power concentration, such as Jakarta and West Java. In 2016, the published prices for a regular-sized (184 mm x 270 mm) full-color ad in five prestigious Indonesian daily newspapers[8] averaged $11,610, with a range of $5,490 to $17,730. For the same newspapers, the prices for a regular black and white ad averaged $8,348, ranging from $3,465 to $13,230.

A list of the major and recommended newspapers and business journals (in the Indonesian language, except noted otherwise) follows below. Website addresses are provided where available.

Daily Newspapers:

Bisnis Indonesia (www.bisnis.com)

International New York Times (English) (international.nytimes.com)

Jakarta Globe (English) (thejakartaglobe.beritasatu.com)

Jakarta Post (English) (www.thejakartapost.com)

Jawa Pos (www.jawapos.com)

Kompas (www.kompas.com)

Kontan (www.kontan.co.id)

Koran Jakarta (www.koran-jakarta.com)

Koran Sindo (www.koran-sindo.com)

Media Indonesia (www.mediaindonesia.com)

Rakyat Merdeka (harianrakyatmerdeka.com)

Republika (www.republika.co.id)

Suara Karya (www.suarakarya.id)

Suara Pembaruan (sp.beritasatu.com/home)

Tempo (koran.tempo.co)

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[8] Kompas, Media Indonesia, The Jakarta Post, Bisnis Indonesia, Kontan

The Wall Street Journal Asia (English) (www.wsj-asia.com)

News Magazines:

Gatra (Weekly) www.gatra.com

Tempo (Weekly) majalah.tempo.co

Tempo (Weekly) (English) magz.tempo.co)

Warta Ekonomi (Twice a week) www.wartaekonomi.co.id

Business Journals:

Eksekutif (Monthly) eksekutif.co.id

Financial Times (Daily, English)

Info Bank (Monthly)

Swasembada (Monthly)

The Economist (Weekly, English)

Direct mail advertising is efficient and effective in most cases, if the mailing lists are properly prepared and updated. Local advertising agencies can also assist in arranging films, slides, and posters and signboards for bus exteriors, bus stop shelters, and bridges.

Pricing

Given the competition that U.S. suppliers face from foreign competitors, product pricing must take into account the costs of delivery, distribution, advertising, and brand image. Since product pricing is a critical factor in determining a company's success in the Indonesian market, market research is useful for understanding both consumer preferences and competitive practices. Pricing is best developed with advice from experienced, local distributors who attuned to the price sensitivity of target market segments. U.S. companies may conduct their own market research, obtain information from the U.S. Commercial Service, or contract with private research firms.

Sales Service/Customer Support

One critical aspect of a product's successful launch and sustainability is customer support and after-sales service. Some U.S. firms face difficulties providing this

support due to distance from the U.S. and the costs of maintaining product support facilities.

Although some local distributor partners may have their own sales and customer service networks, U.S. firms should be prepared to invest substantial amounts of capital and manpower into making their local partner a first-class service provider. Regardless of a company's international reputation, Indonesian consumers value a firm that can provide on-the-ground customer support. They expect to have their customer service needs addressed locally with quick turnaround times.

Protecting Intellectual Property

In any foreign market companies should consider several general principles for effective management of their intellectual property. For background on these principles please link to our article on Protecting Intellectual Property and also Corruption.

IP Attaché Contact [For Southeast Asian region]

Name: Mr. Peter N. Fowler, Regional IP Attaché for Southeast Asia

Address: U.S. Patent and Trademark Office, U.S. Embassy Bangkok, Room 302, GPF Witthayu Tower A, 93/1 Wireless Road, Bangkok 10330, Thailand

Telephone: (662) 205-5913

E-mail: Peter.Fowler@trade.gov

Due Diligence

In general the business sector in Indonesia operates in a somewhat opaque environment. For this reason, it is very difficult to get accurate financial and business reputation information about prospective customers or partners. U.S. Commercial Service in Jakarta offers the International Company Profile (ICP) service to assist American companies in vetting potential business associates. Note that ICP's can only be done on companies and not on individuals. Contact the U.S. Commercial Service office in Jakarta for details on price and availability.

Local Professional Services

The government and professional lawyers are working to improve the Indonesian legal system so that it can offer better protection for businesses. To handle their business matters in Indonesia, U.S. companies should consider hiring a local attorney who understands the business environment and corresponding laws. Should a commercial dispute arise, a first step is to attempt to settle the dispute through negotiation, using a mediator acceptable to both parties if necessary. If

negotiation fails, then companies may seek arbitration, which should be included as a clause in commercial contract agreements and with Indonesia as the site of arbitration. Badan Arbitrase Nasional Indonesia (BANI) or Indonesian National Board of Arbitration is an independent agency that was formed by the government. Companies may retain BANI, International Chamber of Commerce (ICC) or United Nations Commission on International Trade Law (UNCITRAL) to conduct their arbitration proceedings. If negotiation, mediation, and arbitration fail to resolve the dispute, then litigation is the next course of action.

Foreign law firms cannot operate in Indonesia unless they partner with a local firm. U.S. lawyers may act as advisors, not as lawyers, to Indonesian law firms. It is common for an American attorneys retained by a U.S. firm to consult with a local law firm.

Principle Business Associations

The principal U.S. business associations active in Indonesia are the American Chamber of Commerce in Indonesia (AmCham Indonesia) and the U.S.-ASEAN Business Council (USABC). AmCham Indonesia is a membership-based organization for U.S. companies to promote U.S.-Indonesia commercial relations and to serve its members as a key resource for information and business networking. USABC is a limited membership-based organization that serves its companies by engaging with the government to remove trade and investment constraints in Indonesia.

AmCham Indonesia

World Trade Center, 11th Floor

Jl. Jend. Sudirman Kav. 29-31

Jakarta 12920 Indonesia

U.S.-ASEAN Business Council

Mayapada Tower 11th Fl.

Jl. Jend. Sudirman Kav. 28

Jakarta 12920

Web Resources

Indonesian Investment Coordinating Board 'BKPM' (Badan Koordinasi Penanaman Modal)

Ministry of Trade

Ministry of Public Works

Indonesian Ministry of Justice

Indonesian Ministry of Communications and Information Technology

Indonesian Internet Service Provider Association

Indonesian Bureau Statistics

Indonesian National Board of Arbitration

Leading Sectors for US Exports & Investments

Medical Equipment & Supplies

Overview

Unit: USD millions

	2015	2016	2017 (estimated)	2018 (estimated)
Total Market Size	1,864	2,286	2,826	3,543
Total Local Production	1,320	1,452	1,597	1,756
Total Exports	182	201	221	243
Total Imports	726	1,035	1,450	2,030
Imports from the U.S.	114	141	175	218

Data Source: Indonesian Medical Device Producers Association (ASPAKI), Statistics Indonesia (Badan Pusat Statistik), and U.S. Department of Commerce TradeStats Express

Indonesia presents excellent opportunities for U.S. exporters of medical equipment and supplies. Healthcare is a priority in Indonesia's national development agenda. The central and regional governments are building and upgrading healthcare facilities. They are planning to equip community health centers with inpatient facilities and improve their quality of services throughout 34 provinces.

The government continues to encourage private sector involvement in developing hospitals. According to the Directorate General of Health Services, Indonesia Ministry of Health, Indonesia currently has a total of 2,667 hospitals--1,742

privately managed and 925 managed by the public sector. Those hospitals offer 326,424 hospital beds, or 1.2 beds per thousand. This rate is very low by world standards. Indonesia still lags far behind its ASEAN neighbors; Singapore, Thailand, Vietnam, and Malaysia average more than 2.0 hospital beds per thousands.[9] Conservative estimates suggest that Indonesia needs an additional 500,000 hospital beds to catch up to regional averages. Indonesia as a whole lacks a robust healthcare infrastructure and qualified staff, particularly in rural areas. The largest hospital operator in Indonesia, Siloam Hospitals Group, plans to reduce this shortage by expanding its network to 40 fully equipped hospitals raising the national total by 10,000 beds in the coming year.[10]

Indonesia began implementing its Universal Health Coverage (UHC) Plan in 2014, locally known as JKN (National Health Insurance), with the goal of universal coverage for the country's population by 2019. The initial phase hoped to cover the approximately 90 million citizens deemed "the poor and near-poor." Although the implementation of UHC provides a strong increase in the demand for medical equipment and supplies, several challenges exist. The Indonesian healthcare system suffers from structural issues such as underfinancing, lagging numbers of primary care providers and hospitals, limited access to drugs in rural areas, and overall inaccessibility and inequity of care.[11]

According to Business Monitor International (BMI), total health expenditure in 2016 in Indonesia was USD 27.4 billion or equal to USD 105 per capita and just 2.9% of GDP.[12] By comparison, the United States spends $9,024 per capita. Indonesia has just 0.2 doctors per 1000 people versus a global average of 3.2. With Indonesia's population increasing by 3.5 million people a year, the UHC will be forced to expand and Indonesia will require a significant commitment of funds and resources to bring health care systems in line with global averages and meet the demands of the newly-insured.

Indonesia depends on imported medical equipment and supplies to meet local demand. Total imports of medical equipment grew from $726 million in 2015 to $1,035 million in 2016 (an increase of 42.51 percent). Unfortunately, the U.S. portion of those imports fell by 10.69% in 2016. Other countries competing for

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Directorate General of Health Services, Indonesia Ministry of Health

[10] Ernst & Young, website

[11] Indonesia's Health Profile: Poor Health provides Great Opportunities for Healthcare Improvement, website: https://www.tforg.com/how-we-think/sweetspot-blog/2016/10/05/indonesias-health-profile-poor-health-provides-great-opportunities-healthcare-improvement/

[12] Business Monitor International, website: https://bmo.bmiresearch.com/home

market share in the medical equipment and supplies sector include Singapore, Japan, Germany, China, and Korea. Companies from China and Korea provide the greatest challenge to U.S. firms as they offer lower- priced equipment and a sustained presence in the region.[13]

Leading Sub-Sectors

Diagnostic imaging and other medical devices such as wheelchairs, ophthalmic instruments, hospital furniture, medical surgical sterilizers, Ultra Violet or Infra-Red ray apparatus, have the largest market shares and potential for U.S. companies interested in entering this market.

Opportunities

Healthcare service providers, medical device manufacturers/distributors, pharmaceutical companies, and medical technology firms can tap a large market while helping Indonesia improve its healthcare system. Indonesia's large population and consistent economic growth presents excellent opportunities for foreign companies. These opportunities have already attracted various leading U.S. medical device companies to Indonesia such as General Electric, Becton Dickinson, Covidien, 3M, Merck, Sharp & Dohme, and Boston Scientific, among others. As the Indonesian market continues to grow with little competition from local manufacturers, the country will remain heavily reliant on imports for its machinery. Most U.S. companies will find it most beneficial to choose a local distributor to assist with import registration, product licensing and the logistics of importing their devices into the local market.[14]

Web Resources

Ministry of Health

Statistics Indonesia

National Agency of Drug and Food Control (BPOM)

For questions or more information, please contact Pepsi Maryarini at

Pepsi.Maryarini@trade.gov.

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[13] , website:

[14] ASEAN General Economy Outlook Medical Pharma Industry, website: http://www.koelnmesse.it/idem-singapore/_files/asean-general-economic-outlook-medical-pharma-industry.pdf

Education and Training

Overview

	2015	2016	2017 (est.)	2018 (est.)
Number of University Students	5,839,587	5,955,383	6,014,936	6,075,085
Going Abroad	54,432	54,976	55,525	57,190
Going to U.S.	8,188	8,727	9,014	9,285

Data Source: Indonesian Central Bureau of Statistics; Institute of International Education (IIE); and Directorate General of Higher Education

Indonesia is a significant market for U.S. providers of secondary, tertiary, and vocational education. The number of university students is about six million, and it is predicted that the number of Indonesians in higher education will grow to 7.8 million students by 2020, making it the fifth largest system in the world after China, India, the United States and Brazil. Ninety-six percent of all student visa applications to the U.S. are accepted and, there are currently 8,727 Indonesian students studying in the United States. This places Indonesia as the 19th largest source of students to the United States, and the second most important student market in Southeast Asia after Vietnam. Currently, there are more than 50,000 Indonesians studying abroad and this flow of students is predicted to grow annually.

The Jokowi government has said that education, skill development and improvements in education and technical training are priorities. This bodes well for continued growth in opportunities for U.S. community colleges, universities and other U.S. based technical training programs.

As a nation, Indonesia has made a clear commitment to education, passing a constitutional mandate to allocate at least 20 percent of the total government budget to education, mostly for primary education. This effort will need to focus on improving teachers' qualifications, vocational training, and tertiary education, to continue building a substantial queue of well-qualified students to meet United States universities' entry requirements. Nonetheless, the commitment demonstrates the growing potential of the Indonesian market for U.S. schools interested in building their brand awareness over the years to come.

More than ninety percent of Indonesians studying abroad are self-funded. This group of students finances their education privately with support from their parents or assistance from overseas relatives. The remaining students are financed by local universities, companies, the government, and scholarships through different grants. The main contributors to such grants are the World Bank and the Asian Development Bank (ADB). Other educational grants available in Indonesia are the Fulbright and the East-West Center Fellowship.

The Indonesian Government provides considerable opportunities through a scholarship program called LPDP (Lembaga Pengolaan Dana Pendidikan)/Indonesian Endowment Fund for Education. LPDP is funded through the National Trust for Education Development (DPPN) and is managed by LPDP to finance higher education at the masters or doctoral levels in Indonesian or overseas institutions. LPDP is co-managed by the Finance Ministry, Ministry of Culture and Elementary and Secondary Education, Ministry of Research and Technology and Higher Education, and Ministry of Religion.

The LPDP scholarship covers two years of a master's program or four years of a doctoral program at one of nearly 300 select universities worldwide. The Indonesian government selected 55 U.S. universities in which to enroll LPDP scholars. LPDP goal is to produce future leaders through 2045 who can support Indonesia becoming a world leader. The scholarship is a full-endorsement, including tuition, accommodations, book allowance and research and publication funding.

In 2017, the Indonesian government allocated US$ 1.68 billion for full scholarship managed by LPDP for students pursuing undergraduate and postgraduate degrees. In recent years, the government has continually increased the budget for scholarships as more Indonesian students are eager to pursue higher education. The LPDP scholarship has been awarded to a total of 16,000 recipients, including 1,500 alumni and 10,000 ongoing students, with European and United States universities being the most popular choices. For 2017, the fund is preparing scholarships for 5,000 prospective recipients.

Leading Sub-Sectors

The majority of students from Indonesia study at the undergraduate level (66.7%), followed by the graduate level (18.6%), other level (3.4%), and OPT (Optional Practical Training) level (11.3%). Almost exclusively, parents and students consider the following fields of interest for study: business/management, STEM, computer sciences and hospitality services.

Opportunities

A recent survey conducted by a leading Indonesian newspaper showed that most students perceive academic institutions in the United States as offering the highest quality of education compared to academic institutions in other countries. The U.S. has consistently been a desired destination for Indonesian students seeking to study overseas. U.S. universities and community colleges can become more visible in the Indonesian market through participation in education fairs such as those sponsored by EducationUSA and/or by working with student recruitment agencies. Recruitment agencies are popular with prospective Indonesian students and their parents as they serve as "one-stop-shops" for applying to schools and provide services such as assisting with visa applications and arranging travel and accommodations.

To compete with other countries which offer lower tuition fees, universities are participating in "1+1" or "1+3" or "2+2" programs which enable students to apply credits from the years of study at a local university towards an undergraduate degree at a U.S. university.

Studying at U.S. community colleges has also become an increasingly popular option for Indonesian students. Some 40 percent of Indonesians applying for student visas to the U.S. have been accepted at a community college, and half of the top 10 school destinations are community colleges.

Web Resources

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Ministry of Research, Technology and Higher Education of the Republic of Indonesia

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Franchises

Overview

	2012	2013	2014 (est.)	2015 (est.)
Total franchises	800	900	1,000	1,100
Local	450	500	540	580
Foreign	350	400	460	520

Data Source: Indonesian Franchise Association

	2012 – May 2016
Additional franchises	105
Local	44
Foreign	61

Data Source: Indonesia's Ministry of Trade

Indonesia has strong long-term potential for franchise businesses. The franchise industry began to gain widespread popularity in the early 1990s when many well-known American franchises arrived in Indonesia.

Presently, there are more than 460 foreign franchises, and 540 local franchises and 1,400 non-franchised business opportunities operating in Indonesia covering a wide range of franchise sectors. From 2012 through May 2016, there are an

additional 126 foreign franchises, among them there are 40 U.S. franchises. Until recently, estimated future growth in the franchise industry was considered to be around 8 percent per year for local franchises and 14 percent per year for foreign franchises.

Leading Sub-Sectors

Most Indonesian franchise seekers are interested in well-established and innovative food and beverage business concepts such as fine-dining restaurants, Quick Service Restaurants (QSR), coffee shop chains, ice cream shops, and others. Other best prospects include education, especially children's education, and retail or specialty convenience stores.

Opportunities

Local investors are receptive to U.S. franchises. Indonesia's rising disposable incomes and large young population make it an attractive opportunity. Demand for cafes, restaurants and bars continue to increase in the major Indonesian cities. Indonesia's growing middle class is earning higher incomes, and middle class communities are seeking food and after-hours venues for socializing. U.S. franchises are generally well received by Indonesian consumers and compete successfully with franchisors from other countries. Quality, brand name recognition, and innovation all play a big part in the success of U.S. franchises with Indonesian investors. In addition to product pricing, U.S. franchisors must consider adapting to local tastes to guarantee success in the Indonesian market.

Recent discussions with Indonesian investor groups have indicated increased reticence partnering with foreign brands. One factor contributing to this shift is the condition of the rupiah against the US dollar. In addition, many franchisee groups prefer to strengthen their already existent brands. However, new groups are starting to show interest in franchise, though lacking in experience, for some US franchisors this may be an effective option to enter the promising Indonesian market.

Web Resources

Indonesian Franchise Association (AFI)

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Aviation

Overview

Unit: USD millions

	2015	2016	2017 (est.)	2018 (est.)
Total Market Size	887	1,070	1,177	N/A
Total Local Production	260	440	484	N/A
Total Exports	158	174	192	211
Total Imports	785	804	885	973
Imports from the U.S.	237	261	287	315

Data Sources: Central Bureau of Statistics Indonesia, Trade Stats Express USA

The aviation sector in Indonesia has a bright future with great potential. With an estimated population of 255 million people, Indonesia is the world's fourth most populous nation after China, India and the USA, and it is also the largest market in Southeast Asia as its population makes up 40% of the 625 million combined population of the ten ASEAN countries. Being an archipelago comprising over 17,000 islands and with poor land-based transport infrastructure, Indonesia naturally needs air travel for the mobility of its people and goods, and aviation is vital to Indonesia and its economy. Additionally, the World Bank forecasts that

Indonesia's economy will grow by 5.3% in 2017, which is higher than the average growth of the global economy of 2.8%. This forecast is more or less the same as the Indonesian government's growth target set in the 2017 state budget of 5.1%.

In 2017, President Jokowi's Cabinet agreed to prioritize 5 sectors: Infrastructure, Tourism, Maritime, Energy and Food sectors. The Ministry of Transportation will prioritize infrastructure development programs, especially accessibility that supports the tourism sector, including developing airports close to the leading tourist destinations such as: Ahmad Yani Airport (Semarang), Adi Sumarmo Airport (Solo), Adi Sucipto Airport (Yogyakarta), Lombok International Airport, Ngurah Rai Airport (Denpasar), Eltari Airport (Kupang), Komodo Airport (Labuan Bajo), Abdulrahman Saleh Airport (Malang), Juanda Airport (Surabaya), Pitu Airport (Morotai), Sultan Babullah Airport (Ternate), Sam Ratulangi Airport (Manado), Soekarno Hatta Airport (Tangerang), Halim Perdana Kusuma Airport (Jakarta), Kualanamu Airport (Medan), Silangit Airport and Ferdinan Lumban Tobing Airport (Sibolga), Matahora Airport (Wakatobi), Haluoleo Airport (Kendari), Sultan Hasanuddin Airport (Makassar), and H As. Hanandjoedin Airport (Tanjung Pandan). The Directorate General of Civil Aviation received a total budget of 8.9 Trillion Rupiah ($685 billion) in 2017, and part of it will be used for infrastructure development. DGCA is optimistic it will be able to use over 90% of the overall budget by the end of the year.

Director General of Air Transportation, Agus Santoso, said the number of air transport passengers shows high growth compared to other transportation modes. In 2016 there was an increase in the number of domestic air transport passengers to 89,358,457 passengers, up 16.61% compared to 2015. On the other hand, sea transport increased only about 0.52% and trains by 7.94%. Unfortunately, the growth of the aviation industry in Indonesia is still overshadowed by plane crashes. Based on data from the National Transportation Safety Committee (KNKT), in 2016 there were 19 aircraft accidents and 26 serious incidents. This increased from the year 2015, which recorded 11 accidents and 17 serious incident aircraft. To overcome this, DGCA has prepared various programs to improve safety and security in aviation. This effort paid off when in August 2016 the U.S. Federal Aviation Administration (FAA) announced that Indonesia had complied with International Civil Aviation Organization (ICAO) safety standards and had been granted a Category 1 rating. With that, Indonesian air carriers that are able to secure the requisite FAA and DOT approval can establish service to the United States and carry the code of U.S. carriers.

In March 2017 state-owned enterprise PT. Air Navigation Indonesia was provided a budget of 800 Billion Rupiah (US$59.3 million) to improve its flight security system for the western part of the country. The funds, which represent 33.3% of its total

capital expenditure, will be used to buy new devices, including radars, for Jakarta Air Traffic Service Center. The move followed its previous step last year to enhance a similar air traffic control system in Makassar, which covers the eastern part of the archipelago. The upgrading of both air traffic service centers is part of their attempt to modernize the country's flight navigation system by 2018.

Other subsectors in aviation also showed improvement. Indonesia's state-owned airport operator PT. Angkasa Pura II, through its subsidiary PT. Angkasa Pura Cargo, is preparing to open a zone of bonded logistics facilities (PLB) at the Soekarno-Hatta International Airport. The zone will have three warehousing facilities. The first, to be constructed this year, will have an area of about 1,500 square meters. The second will measure about 10,000 square meters with a construction schedule of 2018, and the third facility will be built in 2019 with an area of 10,000 square meters. The construction of the facilities aims to support the government's effort to reduce logistics costs for businesses, and the cargo facility would also be used by aviation companies to store spare aircraft parts to help speed up plane repairs.

Opportunities

Indonesia's under-developed public infrastructure could present significant opportunities in aviation. With Indonesian airports already heavily burdened and the increasing growth in air traffic, investments and developments in new airports closest to tourist destinations, refurbishment of existing airports, and construction and improvements to ground infrastructure, runway, and air traffic systems are promising areas for future growth.

- Existing and new Indonesian airlines are likely to need additional aircraft to expand routes especially to regions outside Java and Bali. This need presents opportunities for new aircraft sales and leases.

- With more aircraft in operation in Indonesia, there will be a greater need for aircraft parts and maintenance services. According to the Indonesian Aircraft Maintenance Service Association (IAMSA), the potential market for Maintenance, Repair and Overhaul (MRO) is predicted to reach $65.3 million in 2020. Foreign investors may partner with local firms to establish aircraft maintenance facilities.

- With the growth of the aviation sector, Indonesia needs adequate training for its workforce ranging from technical to leadership training. This opens opportunities for companies with expertise in the field of aviation to share their knowledge and experience.

U.S. – Indonesia Aviation Working Group Program

On April 20, 2015, with the support of the U.S. Commerce Department and the FAA, Minister of Transportation Ignatius Jonan and U.S. Ambassador Robert O. Blake signed an MOU to officially commence establishment of the U.S. – Indonesia Aviation Working Group. The AWG provides a platform for the U.S. government and companies to engage with Indonesian aviation stakeholders from government agencies, state-owned enterprises, and the private sector in order to share best practices from around the world, and to propose and provide innovative solutions and services to support the growth of the Indonesian aviation sector.

The AWG's activities focus on policy and technical issues facing the Indonesian aviation sector that include:

1) Air Traffic Management Modernization
2) Airport Infrastructure
3) Aviation Safety and Security
4) Development and Growth of Aviation Support Services
5) Airspace and Airport Capacity Analysis, Development, and Planning
6) General Aviation Access and Integration
7) Cargo Security

Below are activities under the platform of the AWG held this year:

- **U.S.-Indonesia AWG:** On January 17, 2017, Minister Budi Karya hosted an event to hear Ministry of Transportation's priorities and those of related organizations such as AirNav, AP1 and AP2. The FAA presented on what it is doing in the region to support the upgrade of air traffic management. Key people in the Indonesian MoT, airport operators and airlines attended the event. Ambassador Joseph R. Donovan hosted a networking reception at his residence afterwards.

- **USTDA-sponsored Reverse Trade Mission (RTM):** On February 27-March 10, 2017, Government of Indonesia and SOE delegates from the Indonesian aviation sector traveled to the U.S. to meet with U.S. technology and service providers, end-users, and counterparts such as the FAA. The RTM had two tracks: one focused on air traffic management/air traffic control and one focused on airport infrastructure and security.

Web Resources

(A) Government and Statutory Agencies:

Directorate General of Civil Aviation

AirNav Indonesia

Angkasa Pura I

Angkasa Pura II

In

National Planning Agency (BAPPENAS)

(B) Airlines:

PT. Garuda Indonesia

PT. Lion Airlines

PT. Citilink Airlines

PT. Sriwijaya Air

(C) Trade Association:

Indonesian Chamber of Commerce & Industry (KADIN)

Amcham Indonesia

For questions or more information, please contact Melissa Wijaya at Melissa.Wijaya@trade.gov

Telecommunications

Overview

Unit: USD millions

	2015	2016	2017 (est.)	2018 (est.)
Total Market Size	4,606	4,836	4,845	5,084
Total Local Production	478	502	528	550
Total Exports	319	335	352	369

Total Imports	4,447	4,669	4,669	4,903
Imports from the U.S.	91	94	98	103

Data Sources: Indonesian Central Bureau of Statistics and unofficial estimates

Indonesia is the fourth largest cellular market in the world with around 370 million subscribers by early 2017. The Indonesia cellular phone market is facing sharp competition, slowing profit margins and a saturated voice and SMS service market, but the country's telecommunications industry retains lucrative prospects for growth in data and value-added services. 4G and 3G services are already sizeable but 2.5G mobile market remains widespread across the country. Prepaid subscriptions account for 98% of subscribers. The four operators that control nearly 90 percent of the country's cellular phone market are Telkomsel, Indosat Ooredoo, Hutchison 3 Indonesia, and XL Axiata

According to the Indonesia Internet Service Providers Association, the internet penetration rate is 52% or 132 million internet users in 2016. Development of the fixed broadband infrastructure has been hampered by the country's complex geography consisting of islands and remote, rural regions. As a result, many cellular operators are offering wireless broadband services to provide affordable access to the Internet.

Local content requirements are also a significant concern. Ministry of Communications and Information (KOMINFO) Regulations 07/2009 and 19/2011 requires that equipment used in certain wireless broadband services contain local content of at least 30 percent for subscriber stations and 40 percent for base stations, and that all wireless equipment contains 50 percent local content within five years. Indonesian telecommunication operators are also required, pursuant to Decree 41/2009, to expend a minimum of 50 percent of their total capital expenditures for network development on locally sourced components or services. In 2015, KOMINFO issued Regulation 27/2015, which requires all 4G enabled devices to contain 30 percent local content, and all 4G base stations to contain 40 percent local content by January 2017. The U.S. Government continues to engage the Indonesian government on these issues.

Leading Sub-Sectors

Ancillary and transmission equipment, cellular handsets, content providers, value-added services, broadband wireless access, and LTE equipment.

Opportunities

Indonesia's telecommunications infrastructure market has good potential for wireless equipment, services and content provider companies. The rapid expansion of the country's cellular and fixed-wireless networks has driven increased spending on the telecommunications infrastructure. The entry of international firms as investors, offers opportunities for U.S. companies to improve the equipment and infrastructure in Indonesia. New options to own and operate the networks, new services, functionality (applications), and the enhancement of older technology, on top of existing infrastructure, are attractive to both operators and subscribers.

Web Resources

Indonesian State Ministry of Communication and Information

For questions or more information, please contact Kalung Riang at

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Power Generation

Overview

Unit: USD millions

	2014	2015	2016	2017(est.)
Total Market Size	2,917	3553	4014	4296
Total Local Production	680	731	826	884
Total Exports	524	574	649	694
Total Imports	2,761	3396	3837	4106
Imports from the U.S.	244	301	340	364

Data Sources: Central Bureau of Statistics Indonesia, Trade Stats Express

The power industry in Indonesia has experienced 7–9 percent annual growth in the last five years. According to the Ministry of Energy and Mineral Resources (MEMR), by December 2016, the electrification ratio of Indonesia reached 91.16%. Papua and East Nusa Tenggara are the regions with the lowest electrification ratios, at 47.78% and 58.93%, respectively, according to 2016 MEMR data.

In end 2016, the installed generation capacity was 58,541 MW, with 40,461 MW (75%) generated by state-owned National Electric Company (PLN) and the remainders, 13,254 MW and 2,434 MW are produced by independent power producers (IPPs) and private power utility (PPUs) respectively. The national transmission system has approximately 49,799 km of lines and 77,514 MVA of transmission transformer capacity. The distribution system includes

approximately 946,101 km of lines and 41,987 MVA of distribution transformer capacity.

Indonesia imported $3.8 billion of electrical power equipment in 2016, and U.S. products constituted 26% of that market. The other major suppliers include China, Singapore, Japan, Korea, Malaysia, France and Germany. Indonesian companies typically import U.S. products directly or through an agent/distributor in Singapore.

In 2014, as part of his focus on developing infrastructure to boost economic growth, President Jokowi announced a target of adding 35 GW power generation capacity by 2019, to achieve the national electrification ratio target of 97.7%. Current market estimates predict that between 7 to 9 GW of power are likely to be actually completed during this period.

In September 2009, the Indonesian government enacted Electricity Law No. 30, 2009. Under the new law, PLN no longer will hold the monopoly on supplying and distributing electricity to end customers. A license to provide electricity for public use may be granted to private business entities subject to a "right of first refusal" provided to state-owned companies. In addition, the government issued an implementing regulation, Government Regulation (PP) No. 12/2012, which allows private companies to participate in transmission and distribution. Under this regulation private companies are allowed to provide electricity from their generation plants for 30 years. Although these two regulations do provide a potential path for ex-PLN power supply it should be noted that in practice the government is hesitant to grant such licenses.

Power Working Group

U.S. Embassy Jakarta has established the U.S. Power Working Group (USPWG) as a platform to support and showcase U.S. firms interested in the 35 GW Project and other commercial opportunities. The working group provides a forum for U.S. firms to engage with the Indonesian government to promote their products and services in light of Indonesia's power infrastructure goals. Working group participants include power industry partners and associations who together can share best practices and formulate strategies to address the expansion of Indonesia's energy infrastructure.

To apply, contact Meiyi Tjugito at Meiyi.Tjugito@trade.gov.

Leading Sub-Sectors

U.S. companies are strong competitors for turbines and turbine parts, transmission and distribution equipment, microgrid equipment, energy saving and efficiency technologies and other products.

Opportunities

The new National Electric Generation Plan (RUPTL) 2017-2026 forecasts that electricity demand in Indonesia will grow 8.3 % annually. According to RUPTL estimates, by 2026, electricity demand will reach 480.2 terawatt hours (TWh) from 78.4 million customers and the electrification ratio will reach 99.4%.

Achieving a total of 35 GW would require investment of an estimated US$ 72.9 billion. According to current plans, 5 GW will be procured by PLN and 30 GW will be developed by the private sector or IPPs. By the Ministry of Energy's 2016 estimation, the full 35 GW Project would require the development of 291 power plants, 732 transmission lines (75,000 set tower), and 1375 unit substations.

Even if the 35 GW plan is not fully achieved the construction of power plants, transmission and distribution lines in Indonesia should bring significant commercial opportunities for U.S. companies. Areas of strong potential include the supply of engineering services and equipment such as turbines, substations, transmission, transformers and distribution equipment. In addition, electrification projects will create increased opportunities for renewables and gas, including clean and lower emissions coal technologies.

Following the 2016 change in energy minister from Sudirman Said to Ignatius Jonan the Indonesian government has implemented significant changes to renewable energy (RE) policy. Under the previous policy regime the Indonesian Ministry of Energy and Mineral Resources (MEMR), incentivized RE through high fixed feed-in-tariffs (FIT) through Minister Regulation (Permen) ESDM No. 19/2016 However, government fiscal constraints resulted in the acceptance of almost no power purchase agreements (PPA) by the national utility. Consequently, MEMR has initiated a new policy regime under which RE projects have to compete on a strictly economic basis. The new regulation establishes a benchmark cost for power generation within each region. So long as a project proposal is below 85% of the regional cost then PLN is authorized to accept the project through direct negotiation between the project developer and the off-taker. Currently RE contributes 11.9% to the Indonesia's energy mix. However, the national energy plan provides an ambitious RE target of 22.4% by 2026.

In 2016 the Indonesian government issued a new framework policy to incentivize the electrification of remote areas. Minister Regulation (Permen) ESDM No. 38/2016 provides a regulatory framework for private companies to develop

independent microgrid utilities in remote and underserved locations. Under 38/2016 a developer can theoretically combine a group of villages and communities into a bundled packet and apply for the issuance of a license to own and operate an independent utility concession. It should be noted that Indonesian political dynamics mean that the actual issuance of such a license is likely to be quite challenging.

Web Resources

Directorate General of Electricity, Ministry of Energy and Mineral Resources

Directorate General of New & Renewable and Conversation Energy, Ministry of Energy and Mineral Resources

PT Perusahaan Listrik Negara (PT PLN)

For questions or more information, please contact Mario Simanjuntak at

Mario.Simanjuntak@trade.gov and Yanuar Wibisana at Yanuar.Wibisana@trade.gov

Agricultural Sectors

Overview

Cotton

Indonesia produces 0.3 percent of its total domestic cotton demand. Official reports indicate that production fell dramatically due to high production costs and agronomic risks.

Indonesian cotton imports are expected to reach 3.05 bales in MY 2016/17 and 3.1 bales in MY 2017/18. Increases are expected based on importer's anticipation of rising fossil fuel prices, which will drive down demand for synthetic fabrics. Despite expected increases of Indonesian cotton imports, Indonesian textile and textile product exports are declining as international demand softens. The Indonesian Textile Association reported that the value of Indonesian textiles and product exports to the United States declined 3.7 percent from $3.98 billion (Jan - Sept 2015) to $3.84 billion (Jan-Sept 2016). Indonesia's major export destinations for textiles are the United States (32.1 percent market share), the European Union (14.6 percent), and Japan (9.8 percent). Indonesian demand for locally made textiles is also declining due to competition from low cost imports and weakening consumer purchasing power, attributable to the weak rupiah. (The Indonesian rupiah continues to fluctuate, ranging from Rp. 13,084/$1 on November 9, 2016 to Rp. 13,360/$1 on February 23, 2017).

Exports of U.S. Cotton to Indonesia ($US Million)

2010	2011	2012	2013	2014	2015	2016	2017*
293.8	524.1	193.3	287.1	325.7	293	349.24	174.93

Note: * as of Jan – Mar 2017

Exports of U.S. Cotton to Indonesia (Thousand Tons)

2010	2011	2012	2013	2014	2015	2016	2017*
151.8	157.1	78.4	138.5	167.0	187	221.68	101.54

Note: * as of Jan – Mar 2017

Soybeans

Indonesia is the world's second-largest consumer of soybeans for direct human consumption. Tempe and tofu makers are the largest soybean consumers in Indonesia, accounting for nearly 90 percent of total domestic soybean consumption. Tempe and tofu manufacturers prefer U.S. soybeans' texture and quality.

FAS Jakarta expects Indonesia consumption will reach 2.99 million metric tons in 2017/18, a 3 percent increase over previous marketing year. Indonesia imported 2.4 MMT of soybeans in MY 2016/17, and is expected to continue to grow, as local production remains stagnant.

Exports of U.S. Soybeans to Indonesia ($U.S. Million)

2010	2011	2012	2013	2014	2015	2016	2017*
805.8	861.5	996.6	984	1,030	773	994	291

*as of Jan-March 2017

Exports of U.S. Soybeans to Indonesia (million MT)

2010	2011	2012	2013	2014	2015	2016	2017*
1.85	1.7	1.78	1.75	1.98	1.9	2.58	0.74

*as of Jan-March 2017

Consumer Ready Food Products

The expansion of modern retail outlets with refrigeration and storage facilities throughout Indonesia's major urban areas provides good prospects for imported

U.S. consumer- ready food products. The growth of franchise restaurants specializing in Western and other non-Indonesian foods, food courts, and four and five-star hotels are also increasing demand for imported food products. The introduction of new domestic- produced food products, aggressive promotional activities, growing customer purchasing power, and growing health consciousness is driving food-processing sector growth. These developments provide a potential market for U.S. food and agricultural ingredients, especially dairy products.

More consumers are expected to make purchasing decisions based on health and wellness concerns. Dairy and fresh fruit products are considered healthy, with dairy ingredients for food and beverage manufacturing leading this category. Snacking is a part of the Indonesian culture. With exposure to western-style foods and increases in snacking, U.S. exports of snack foods as well as ingredients for the Indonesian snack food manufacturing industry are expected to continue increasing.

Exports of U.S. Consumer Ready Food to Indonesia ($US Million)

	2010	2011	2012	2013	2014	2015	2016
Dairy Products	161	212.7	191	315.8	274.9	183	157.8
Fresh Fruit	96	110	112	70.7	93.4	64.2	81.5
Prepared Food	32	61.1	67	78.1	74.1	66.2	59.6
Processed Vegetables	25	27.5	32	35.8	36.9	37.6	40.1
Beef &Beef Products	25	28.4	9	16.8	26.8	11.9	39.4
Processed Fruit	7	10.9	12	12.8	10.4	8	12.3
Non- Alcoholic Bev + Juices	7	12.2	11.6	8.1	9.5	11.8	15
Tree Nut	5	3.9	5	9.4	8.4	11.6	11.8
Chocolate & Cocoa Products	2	4	4	10.4	7.1	11.7	2.6
Dog & Cat Food	3	4	4.5	7.7	7.2	7.4	5.9
TOTAL	363	474.7	447.2	565.6	549.6	413.7	426

Wheat

Post maintains its MY2016/17 Indonesian wheat import estimate at 9.0 MMT, which is low compared to MY 2015/16 imports of 10.116 MMT. The decline is due to 2016 feed-grade wheat import restrictions. Post estimates MY 2017/18 Indonesian wheat imports will reach 9.45 MMT, in line with the expected wheat flour demand increase by food industry. The U.S. share of wheat exports to Indonesia is thus increased to 940,000 MT in MY 2017/18.

Exports of U.S. Wheat to Indonesia ($US Million)

2010	2011	2012	2013	2014	2015	2016	2017*
129.8	268.5	229.5	213.5	262	105.4	194.884	66.00

Note: * as of Jan – Mar 2017

Exports of U.S. Wheat to Indonesia (Thousand Tons)

2010	2011	2012	2013	2014	2015	2016	2017*
563.9	816.0	730.0	722.2	927	429	961	337

Note: * as of Jan – Mar 2017

Customs, Regulations & Standards

Trade Barriers

The National Food Logistics Agency's (BULOG) main duties are procuring domestic husked paddy rice during the harvest period at the Government Purchasing Price (HPP= Harga Pembelian Pemerintah). BULOG distributes rice during emergencies, natural disasters, and managing government rice reserves as well as managing the Rice for the Poor program. BULOG can also import rice to meet the government rice reserve secure level, and to maintain price stability if domestic rice production does not meet demand. In 2015, BULOG was given additional authority to intervene in markets on behalf of the government. For example, in late 2015, BULOG was appointed as Indonesia's sole authorized importer for corn.

Indonesia continues to enforce a ban on imports of poultry parts, which has been in place since 2000. U.S. industry estimates the value of lost exports at $10 million or more per year. The GOI controls imports through the issuance of import permits. Import permits for whole chickens have never been issued. While duck and turkey permits have been issued previously, they were denied in 2014. Additionally, an Indonesian Ministry of Agriculture regulation states that poultry exports are only permitted from countries where halal slaughter is implanted in all slaughter facilities, not just export- oriented facilities.

The GOI allows imports of some U.S. beef and beef products. The GOI requires pre- approval of every U.S.-based exporter's halal processes prior to exporting to Indonesia. U.S. exporters complain Indonesia's halal approval process is slow, burdensome and lacking in transparency. The United States continues to work with Indonesia to ensure that that the approval process is conducted in a fair, indiscriminate and transparent manner. The GOI also requires individual plant approvals, limiting the number of establishments eligible to export to Indonesia.

The GOI also imposes de facto quantitative restrictions on imports of meat and horticultural products by requiring a Letter of Recommendation ("Surat Rekomendasi Impor") and an Import Permit. In approving requests for such letters the GOI can arbitrarily alter the quantity allowed to enter, raising concerns that Letters of Recommendation and Import Permit are being used to limit imports. Since January 2015, the GOI prohibits the import of some beef cuts and offals from all sources, and reserves the right to import these products for state-owned enterprises.

An Indonesian Ministry of Finance regulation imposed import duties on alcoholic beverages containing ethyl alcohol on April 7, 2010. This regulation changed the tariff from an ad valorem tariff to a specific tariff. The new tariff ranges from Indonesian rupiah (Rp.) 14,000/liter to Rp. 125,000/liter. The Indonesian Ministry of Finance also eliminated the luxury tax on alcoholic beverages and increased the excise tax. The excise tax ranges from Rp 13,000 to Rp. 139,000 per liter.

The Indonesian Ministry of Trade permits registered importers of alcoholic beverages to import duty-paid alcoholic beverage products. Previously, duty-paid and duty-free alcoholic beverages were only imported through a state-owned company, as directed by the Ministry of Trade. The Ministry of Trade regulation states that the companies that import duty paid alcoholic beverages must apply for an imported-alcoholic beverages permit (IT-MB) through the Directorate General of Foreign Trade. To apply for an IT-MB, each importer must obtain an appointment letter from at least 20 manufacturers or brands, and purchase a minimum of 3,000 carton/brand/year. This letter of appointment must be notarized by public notary of the country of origin. The permit is valid for three years and can be extended.

The Indonesian Customs Service uses a schedule of arbitrary "price checks" rather than actual transaction prices on importation documents for assessing duties on food product imports. While Indonesian government officials defend this practice on the basis of combating "under invoicing," they do not publicize the list or the methods used to arrive at those prices. As a result, although most food product import tariffs remain at five percent, the effective level of duties can be much higher. In addition, the USG has received complaints from importers about costly

delays in customs processing and requests for unofficial payments to customs officers. The United States will continue to raise its concerns on these issues with the GOI.

The Indonesian Ministry of Agriculture's Quarantine Agency recognized the U.S. Fresh Food of Plant Origin (FFPO) safety control system, as per Ministry of Agriculture Regulation 4/2015, on November 19, 2009. FFPO recognition must be renewed every two years and was most recently renewed in December 2015. The regulation contains import control measures for 113 horticultural products, providing priority access to Indonesian ports. U.S. FFPO recognition allows eligible U.S. FFPO products to enter Indonesia without certificates of analysis documents, thus avoiding the need to request Indonesia recognition of U.S. food safety labs, a slow and cumbersome process. Post is currently working with MOA to expand the list of eligible products in the FFPO Decree.

Indonesia's Biosafety Commission for Transgenic Products is responsible for implementing regulations for biotechnology and initiating assessments for product approvals. However, it underwent more than a year of inactivity until its reauthorization by the President in late 2014. Indonesian biotechnology policy does not include a unified science-based framework to implement its regulations. Thus, while there are no transgenic seed crops approved for release, and Indonesia does not produce any biotech crops, there are also no trade constraints based on biotechnology content. Several applications for cultivation of biotech crops are currently in the pipe-line, and Post remains optimistic that biotech sugarcane and corn will be commercialized shortly, despite the fact that the new administration has been slow to take action on biotechnology.

Other Barriers

Please see the Indonesia section of the United States Trade Representative's National Trade Estimate on Foreign Trade Barriers.

For more information and help with trade barriers please contact:

International Trade Administration

Enforcement and Compliance
(202) 482-0063
ECCommunications@trade.gov

Import Tariff

Indonesia's average most-favored-nation *applied* tariff is 6.9 percent. Indonesia periodically changes its applied rates and over the last five years has increased its

applied tariff rates for a range of goods that compete with locally-manufactured products, including electronic products, electrical and non-electrical milling machines, chemicals, cosmetics, medicines, wine and spirits, iron wire and wire nails, and a range of agricultural products including milk products, animal and vegetable oils, fruit juices, coffee, and tea. .Indonesia has a simple average bound tariff rate of 37 percent across products, which is much higher than its average applied tariff (see above). Most Indonesian tariffs on non-agricultural goods are bound at 40 percent, although tariff rates exceed 40 percent or remain unbound on automobiles, iron, steel, and some chemical products. In the agricultural sector, tariffs on more than 1,300 products have bindings at or above 40 percent. Tariffs on fresh potatoes, for instance, are bound at 50 percent, although the applied rate is 20 percent. The high bound tariff rates, combined with unexpected changes in applied rates, create uncertainty for foreign companies seeking to enter the Indonesian market.

In late 2016, Ministry of Finance issued regulation 182 of 2016, which levies a 7.5-percent charge on certain imported goods (known as "consignment goods") shipped by business entities regardless of the tariff rate in Indonesia's WTO and FTA schedules. Indonesia has extensive preferential trade relationships with other countries. Under the ASEAN Free Trade Agreement, duties on imports from ASEAN countries generally range from zero percent to 5 percent, except for products specified on exclusion lists. Indonesia also provides preferential market access to Australia, China, Japan, Korea, India, Pakistan, and New Zealand under regional ASEAN agreements and to Japan under a bilateral agreement.

Indonesia is participating in negotiations for the Regional Comprehensive Economic Partnership, which includes the ten ASEAN members and six additional countries (Australia, China, India, Japan, Korea, and New Zealand).

Import Requirements & Documentation

The GOI requires extensive documentation prior to allowing the importation of goods. Local customs brokers are acquainted with the procedures and required format of the documentation. At a minimum, the U.S. exporter or his agent must provide a pro-forma invoice, commercial invoice, certificate of origin, bill of lading, packing list, and insurance certificate. In addition to those documents additional certificates are often required by technical agencies with an interest in the content and conformance of the imported product such as food, pharmaceutical, seeds, or chemicals.

The process of providing the documentation includes a requirement that the importer notifies the customs office prior to the arrival of goods and submits import documents electronically through the electronic data interchange (EDI) in a

standardized format placed on flash drives. In addition to providing the import documentation, the Custom Office will conduct physical inspection of imported goods.

There is an import fee applicable for incoming goods which is based on the goods classification from Indonesian Customs Tariff Book or Harmonized System Code.

Since 2013, food products are required to have Indonesian language labeling.

Labeling/Marking Requirements

All imported consumer goods must identify the importing agents. The GOI requires that information on product labels be distinctly and clearly written or printed or shown so that it can be seen easily and understood. The information on product labels should be written or printed in the Indonesian language, Arabic numbers, and Latin letters. The use of language, numbers, and letters other than the Indonesian language will only be permitted when there are no matching terms, or in the event of trading abroad.

Labeling should not contain the following: claims on the effect of the product on health, whether preventative and/or curative; incorrect or misleading information; comparisons to other products; promotion of certain similar products; and any additional information that has not yet been approved.

U.S. Export Controls

The United States imposes export controls to protect national security interests and promote foreign policy objectives. The United States also participates in various multilateral export control regimes to prevent the proliferation of weapons of mass destruction and prevent destabilizing accumulations of conventional weapons and related material. The U.S. Department of Commerce's Bureau of Industry and Security (BIS) administers U.S. laws, regulations and policies governing the export and reexport of commodities, software, and technology (collectively "items") falling under the jurisdiction of the Export Administration Regulations (EAR). The primary goal of BIS is to advance national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system and promoting continued U.S. strategic technology leadership. BIS also enforces anti-boycott laws and coordinates with U.S. agencies and other countries on export control, nonproliferation and strategic trade issues.

BIS is responsible for implementing and enforcing the EAR, which regulate the export and reexport of items with chiefly commercial uses that can also be used in conventional arms, weapons of mass destruction, terrorist activities, or human

rights abuses; and less sensitive military items; including "production" and " development" technology.

BIS's Export Administration reviews license applications for exports, reexports and deemed exports (technology transfers to foreign nationals in the United States) subject to the EAR. Through its Office of Exporter Services, Export Administration also provides information on BIS programs, conducts seminars on complying with the EAR, provides guidance on licensing requirements and procedures, and presents an annual Update Conference on Export Controls and Policy as an outreach program to industry. EA's Office of Technology Evaluation analyzes U.S. export data on items subject to the EAR, BIS license application data, and global trade information to assess data trends. OTE's data portal provides excerpts from statistical reports, along with data sets to enable the public to perform analyses of exports and licensing on its own .

U.S. exporters should consult the EAR for information on how export license requirements may apply to the sale of their goods. If necessary, a commodity classification request may be submitted in order to obtain BIS assistance in determining how an item is controlled (i.e., the item's classification) and the applicable licensing policy. Exporters may also request a written advisory opinion from BIS about application of the EAR to a specific situation. Information on commodity classifications, advisory opinions, and export licenses can be obtained through the BIS website or by contacting the Office of Exporter Services at the following numbers:

Washington, D.C. Tel: (202) 482-4811 Fax: (202) 482-3322
Western Regional Office Tel: (949) 660-0144 Fax: (949) 660-9347
Further information on export controls is available online.

BIS has developed a list of "red flags," or warning signs, intended to discover possible violations of the EAR. These are posted online.

Also, BIS has "Know Your Customer" guidance online.

BIS provides a variety of training sessions to U.S. exporters throughout the year. These sessions range from one to two day seminars and focus on the basics of exporting as well as more advanced topics. A list of upcoming seminars can be found on the website.

The EAR does not control all goods, services, and technologies. Other U.S. Government agencies regulate more specialized exports. For example, the U.S. Department of State's Directorate of Defense Trade Controls has authority over

defense articles and services. A list of other agencies involved in export control can be found on the BIS Web site or in Supplement No. 3 to Part 730 of the EAR, which is available on the Government Printing Office Web site.

A list that consolidates eleven export screening lists of the Departments of Commerce, State and the Treasury into a single search as an aid to industry in conducting electronic screens of potential parties to regulated transactions is available

Temporary Entry

The GOI encourages foreign investors who export to locate their operations in bonded or export processing zones (EPZ). There are a number of EPZs in Indonesia, the most well-known being Batam Island, located 20 kilometers south of Singapore. There are also several bonded zones or export processing zones near Jakarta such as Tanjung Priok, Cakung and Marunda, which are very close to international ports and international harbors. Products can be imported into a bonded zone and re-exported without paying tariffs, unless the products are sent into Indonesian customs area.

Foreign and domestic investors wishing to establish projects in a bonded area near Jakarta can contact PT Kawasan Berikat Nusantara (Persero), which is a state owned company, detailed information is available at www.kbn.co.id

Additionally, for the bonded zone in Batam Island, you may contact BIFZA (Batam Indonesia Free Zone Authority).

Prohibited & Restricted Imports

Indonesian importers must comply with numerous and overlapping import licensing requirements that impede access to Indonesia's market. MOT Regulation 70/2015 came into effect in January 2016, replacing MOT Regulation 27/2012 as amended by Regulation 59/2012. The new regulation requires all importers to obtain an import license as either importers of goods for further distribution (API-U) or as importers for their own manufacturing (API-P), but they cannot obtain license for both activities.

In response to stakeholder concerns, in December 2015, MOT issued Regulation 118/2015 on complementary goods, which allows companies that operate under an API-P import license to import finished products for complementary goods, market testing, or for after sales service purposes, as long as the goods are new, consistent with the company's business license and meet import requirements. In October 2015, MOT issued Regulation 87/2015 on the Import of Certain Products (replacing Decree 56/2009, which had been extended through MOT Regulation 83/2012). Like

its predecessors, Regulation 87/2015 requires pre-shipment verification by designated companies (known in Indonesia as "surveyors") at the importer's expense and limits the entry of imports to designated ports and airports. In addition, Regulation 87/2015 maintains non-automatic import licensing requirements on a broad range of products, including electronics, household appliances, textiles and footwear, toys, food and beverage products, and cosmetics. However, for holders of an API-U license, Regulation 87/2015 appears to eliminate the additional requirement to apply or register as an importer of certain products.

MOT Regulation 82/2012, as amended by Regulations 38/2013, 68/2015, 41/2016, and MOI Regulation 108/2012, in effect since January 2013, imposes burdensome import licensing requirements for cell phones, handheld computers, and tablets. Under Regulation 82/2012, importers of cell phones, handheld computers, and tablets are not permitted to sell directly to retailers or consumers, and they must use at least three distributors to qualify for a MOT importer license. MOT Regulation 41/2016 requires 4G device importers to provide evidence of contributions to the development of the domestic device industry or cooperation with domestic manufacturing, design, or research firms.

Import Licensing for Agricultural Products

Import licensing requirements also apply to certain horticultural products. In order to import horticultural products into Indonesia, Ministry of Agriculture (MOA) and MOT regulations require Indonesian importers to obtain: (1) an Import Recommendation of Horticultural Products (RIPH) from MOA; and (2) an Import Approval (SPI) from MOT. Import approvals are issued on a biannual basis and are valid for one six-month period. RIPHs specify, inter alia, the product name, HS code, country of origin, manufacturing location (for industrial materials), and entry point for all horticultural products the applicant wishes to import. After securing an RIPH, an importer must obtain an SPI from MOT before importing horticultural products. An SPI specifies the total quantity of a horticultural product (by tariff classification) that an importer may import during the period for which the SPI is valid. Importers cannot amend existing SPIs or apply for additional ones outside the application window.

Indonesia has updated its import rules on horticultural products through MOT's Regulation 71/2015 (superseding MOT Regulations 16/2013, 47/2013, and 40/2015), but the new regulation makes few substantial changes. Import licenses still are required and quantities will be allocated subject to the importer's cold storage capacity. MOT eliminated the 80-percent rule for horticultural products, which imposed punitive measures on importers that used less than 80 percent of the quota allotted under their import permits. However, importers state that they must

file import-realization reports and that the 80 percent rule is still being implemented informally. This regulation also specifies that the total import allocation will be set annually and that importers are no longer required to register as horticultural product importers. MOA also maintains seasonal import restrictions on certain horticultural products. For example, oranges can only imported in months outside of Indonesia harvest periods.

Indonesia changed its requirements for importation of beef in 2016. Under Regulation 34/2016, all kinds of bovine meat cuts, including variety meats and offal, are allowed for import. Additional changes include the extension of import license validity to six months, and the elimination of a rule requiring importers to use at least 80 percent of their allotted import licenses. Despite these changes, the import licensing procedures continue to hinder Indonesia's beef imports. For example, import licenses are issued for specific countries of origin, and importers cannot change sourcing to respond to evolving market conditions. Also, Indonesia only issues import licenses for meat originating in approved facilities. Approvals for new facility require on-site inspection by MOA, but MOA lacks the resources to inspect all interested U.S. facilities. Indonesia also limits trade through practices not covered by its written regulations. For example, certain importers have reported that the Indonesian Ministry would only approve approximately 10 percent of quantity of beef offal that they have requested in their import licensing application. Additionally, importers are required to sell beef at prescribed reference prices in traditional wet markets as a condition for the issuance of import licenses. Finally, although Indonesia has stated that it will issue import licenses to any importer at any quantity, importers report that the Indonesian Ministry will refuse licenses to importers who request quantities above a certain threshold determined by the Indonesian government. Similar to the prior import regulations, the new import regulations restrict the import of poultry and poultry products. The regulations governing animals and animal products maintain a positive list of products that may be imported with a permit. The regulations provide for the import of whole fresh or frozen poultry carcasses (chicken, turkey, or duck) but not for the import of poultry parts, effectively resulting in a ban on the import of poultry parts. Additionally, although the regulations provide for the import of whole chicken carcasses, Indonesia in practice does not issue import permits covering these products. This practice was expanded to whole duck and turkey carcasses as Indonesia has not issued import permits for these products since December 2013.

MOT regulation 63/2016 "Farmer Level Purchase and Consumer Level Selling Reference Prices" sets reference prices to ensure availability and price stability for agricultural products. The regulation covers seven commodities: rice, corn,

soybeans, sugar, shallots, chilies, and beef. According to MOT 63/2016, the Indonesian government (through Indonesia's state procurement body, the Bureau of Logistics (BULOG), and other state-owned enterprises) is required to carry out market operations in the event that market prices fall below buying reference prices or rise above selling reference prices. In its initial implementation of this new regulation, the Ministry of Agriculture has assigned PD. Pasar Jaya (a provincial government-owned company) to distribute sugar to consumers at a maximum price of Rp. 12,500/kg. The Indonesian government also is currently requiring beef importers to sell beef at set prices in Jakarta's traditional markets as a condition for the issuance of import licenses. Sales to modern retail outlets, as well as hotel, restaurant and institutional buyers are not bound by government-set prices.

The licensing regimes for horticultural products and animals and animal products have significant trade restrictive effects on imports, and the United States has repeatedly raised its concerns with Indonesia bilaterally and at the WTO. Indonesia has failed to address these concerns. As a result, in January 2013, the United States requested consultations with Indonesia under the WTO's dispute settlement procedures. After the consultations failed to resolve the concerns, the United States requested establishment of a WTO dispute settlement panel, and a panel was established in April 2013. In August 2013, New Zealand joined the dispute by filing its own request for consultations to address Indonesia's measures. At the same time, the United States filed a revised consultations request to address recent modifications to Indonesia's measures and to facilitate coordination with co-complainant New Zealand. A panel was established in May 2015.

Quantitative Restrictions

Indonesia imposes restrictions on feed corn imports, limiting imports to BULOG only. (Some corn imports intended for starch manufacturing are allowed.) As Indonesia's sole importer of feed corn, BULOG prioritizes corn distribution to small-holder poultry farmers. The import volume is set based on the level of domestic feed production. Other feed millers are obligated to use locally produced feed corn, but have expressed concern that they are unable to obtain quantity sufficient to maintain the poultry industry's growth. Indonesia maintains a seasonal ban on imports of sugar, in addition to limiting the annual quantity of sugar imports based on domestic production and consumption forecasts. Indonesia bans exports of raw and semi-processed rattan.

Indonesia applies quantitative limits on the importation of wines and distilled spirits. Companies seeking to import these products must apply to be designated as

registered importers authorized to import alcoholic beverages, with an annual company-specific quota set by MOT.

Customs Regulations

U.S. firms continue to report that Indonesian customs relies on a schedule of reference prices to assess duties on some imports, rather than using actual transactions as required by the WTO Agreement on Customs Valuation. Indonesian customs makes a valuation assessment based on the perceived risk status of the importer and the average price of a same or similar product imported during the previous 90 days.

U.S. horticultural exports continue to use Tanjung Priok port, based on Indonesia's recognition of the U.S. food safety system for fresh foods of plant origin (FFPO). Australia, New Zealand, and Canada have also received FFPO recognition and have access to Tanjung Priok. In January 2015, the Ministry of Agriculture renewed the U.S.-country recognition status for two years.

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Standards for Trade

Overview

Rapid growth of international trade has resulted in the development of product and service standardization in all industrial sectors. Products and services exported to a foreign market must meet standard requirements in order to be successful. Standards could also be used as a non-tariff barrier to protect a country's domestic economy from the flow of foreign products and services.

At present, standards are commonly used in most Indonesian industries. The Indonesian government and related industrial players have been very active in formulating standards for products and services, which are either locally manufactured or imported and exported.

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Conformity Assessment

In line with the economic globalization and the WTO's "Standard Code" on Technical Barriers to Trade (TBT), the role of standards and conformity assessment has become very crucial. In order to successfully compete in the global market, the Indonesian government formulates its national standards with reference to regional and/or international standards.

In order to ensure that certain standards have been complied with a conformity assessment mechanism is required. Moreover, the available scheme of Mutual Recognition Arrangements (MRAs) in the area of standard and conformity assessment should be used as the basis of recognition on product certificates and/or test reports when trade transaction cross inter-country territories.

Product Certification

At present, product certification is required. According to the Government Regulation on National Standardization, the only national standards are Indonesian National Standards (SNIs). Institutionally, BSN is responsible for the formulation of the SNIs, whereas the task on accreditation is given to the National Accreditation Committee (KAN). SNIs are formulated in accordance with the nationally agreed mechanism of standard formulation and normally aligned with similar regional or international standards whenever possible.

Accreditation

The National Accreditation Committee (KAN) is the formal accreditation body. The main function of KAN is to establish an accreditation system in Indonesia and to grant accreditation in certain fields including testing and calibration laboratories, certification bodies and inspection bodies.

Currently, KAN has been operating an accreditation system for testing and calibration laboratories, certification bodies that consist of ISO 9000 quality system certification bodies, ISO 14000 series environmental quality system certification bodies, personnel certification bodies, product certification bodies, HACCP certification bodies, and inspection bodies.

Publication of technical regulations

There are publications issued by BSN on technical regulation. Those publications are available at the BSN Library.

Contact Information

The National Standardization Agency (Badan Standardisasi Nasional "BSN")

Gedung I BPPT

Jl. MH Thamrin No. 8

Jakarta 10340

Tel (62-21) 392-7422; (62-21) 392-7528

Email bsn@bsn.go.id

Trade Agreements

The United States and Indonesia signed a Trade and Investment Framework Agreement (TIFA) in 1996, which was designed to build stronger economic ties. See Chapter 6: Investment Climate for more information.

Licensing Requirements for Professional Services

There are three minimum requirements that apply to all foreign-owned companies in Indonesia, including consulting companies and professional services providers.

1. Submit an Investment plan of at least Rp.10 billion (approximately 750,000 USD). This amount includes both fixed and working capital.
2. State Rp. 2,5 billion (approximately 190,000 USD) as paid up capital from the shareholders.
3. Have at least 2 shareholders. Both companies and individuals can be shareholders.

All foreign-owned companies have to submit an Investment Plan to get the approval from the Investment Coordinating Board (BKPM).

Web Resources

ASEAN Free Trade Area (AFTA)

ASEAN Tariff database

Agency for Drug and Food Control (BPOM)

Directorate General of Custom and Excise

The Indonesian Standardization Agency (BSN)

The National Accreditation Committee (KAN)

Investment Coordinating Board (BKPM)

Investment Climate Statement

Executive Summary

While Indonesia's population of 245 million, growing middle class, and stable economy remain attractive to U.S. investors, investing in Indonesia remains challenging. Since October 2014, the Indonesian government under President Joko Widodo, widely referred to as 'Jokowi,' has prioritized boosting investment, including foreign investment, to support Indonesia's economic growth goals, and has committed to reducing bureaucratic barriers to investment, including announcing the creation of a "one-stop-shop" for permits and licenses at the Investment Coordination Board. However, factors such as a decentralized decision-making process, legal uncertainty, economic nationalism, and powerful domestic vested interests, create a complex and difficult investment climate. The Government of Indonesia's (GOI) requirements, both formal and informal, to partner with Indonesian companies, purchase goods and services locally, restrictions on some imports and exports, and pressure to make substantial, long-term investment commitments, also factor into foreign investors' plans. The Indonesian Corruption Eradication Commission continues to investigate and prosecute high-profile corruption cases. Investors, however, still cite corruption as an obstacle to pursuing opportunities in Indonesia.

Other barriers include poor government coordination, the slow rate of land acquisition for infrastructure projects, poor enforcement of contracts, an uncertain regulatory environment, and lack of transparency in the development of laws and regulations. New regulations are at times difficult to decipher and often lack sufficient notice and socialization for those impacted. The lack of coordination among ministries creates redundant and slow processes, such as for securing business licenses and import permits, and at times, conflicting regulations.

Indonesia restricts foreign investment in some sectors through a Negative Investment List. The latest version, issued in 2016, details the sectors in which foreign investment is restricted and outlines the foreign equity limits in a number of sectors. The 2016 Negative Investment List allows greater foreign investments in some sectors, including e-commerce, film, tourism, and logistics. In health care, the 2016 list loosens restrictions on foreign investment in categories such as hospital management services and manufacturing of raw materials for medicines, but tightens restrictions in others such as mental rehabilitation, dental and specialty clinics, nursing services, and the manufacture and distribution of medical devices. Energy and mining still face significant foreign investment barriers.

Indonesia began to abrogate its more than 60 existing Bilateral Investment Treaties (BITs) in February 2014, allowing the agreements to expire. While the U.S. does not have a BIT with Indonesia, the Indonesian government's action reminds foreign investors of the unpredictability of country's investment climate.

Despite these challenges, Indonesia continues to attract foreign investment. Singapore, Malaysia, Japan, the Netherlands, and South Korea were the top sources of foreign investment in the country in 2015 (latest available full-year data) according to the Indonesia Investment Coordination Board, or BKPM. Private consumption is the backbone of the economy and the middle class is growing, making Indonesia a promising place for consumer product companies, and the fastest growing economy within the 10 member Association of Southeast Asian Nations (ASEAN). Indonesia has ambitious plans to improve its infrastructure with a focus on expanding access to energy, strengthening its maritime transport corridors, which includes building roads, ports, railways and airports, as well as improving agricultural production, telecommunications, and broadband networks throughout the country. Indonesia continues to attract U.S. franchises and consumer product manufacturers.

Table 1

Measure	Year	Index or Rank
TI Corruption Perceptions index	2016	90 of 176
World Bank's Doing Business Report "Ease of Doing Business"	2017	91 of 190
Global Innovation Index	2016	88 of 128

World Bank GNI per capita	2015	USD 3,440

Openness To, and Restrictions Upon, Foreign Investment

Policies Towards Foreign Direct Investment

With GDP growth registering over 5 percent in 2016, Indonesia's young population, growing middle class, strong domestic demand, stable political situation, and conservative macroeconomic policy make it an attractive destination for foreign direct investment (FDI). Indonesia is also the largest economy in ASEAN. Indonesian government officials welcome increased FDI, aiming to create jobs and spur economic growth, and court foreign investors, notably focusing on infrastructure development and export-oriented manufacturing. However, vague and conflicting regulations, poor existing infrastructure, rigid labor laws, sanctity of contract issues, and corruption remain significant concerns for foreign investors. U.S. firms have expressed hope that better coordination under Indonesia's current administration will help to improve the investment climate.

The Investment Coordination Board, or BKPM, serves as an investment promotion agency, a regulatory body, and the agency in charge of approving planned investments in Indonesia. As such, it is the first point of contact for foreign investors, particularly in manufacturing, industrial, and non-financial services sectors. Through its One-Stop Shop Center, BKPM facilitates licensing and permitting processes of 21 ministries and agencies. Special expedited licensing services are available for investors meeting certain criteria, such as making investments in excess of approximately USD $8 million or employing 1000 local workers.

Limits on Foreign Control and Right to Private Ownership and Establishment

Restrictions on FDI are, for the most part, outlined in presidential decree 44/2016, commonly referred to as the Negative Investment List or the "DNI". The Negative Investment List aims to consolidate FDI restrictions from numerous decrees and regulations, in order to create greater certainty for foreign and domestic investors. The 2016 revision to the list eased restrictions in a number of previously closed or restricted fields. Previously closed sectors, including the film industry (including filming, editing, captioning, production, showing, and distribution of films), on-line marketplaces with a value in excess of IDR 100 billion (USD $7.4 million), restaurants, cold chain storage, informal education, hospital management services, and manufacturing of raw materials for medicine, are now open for 100 percent foreign ownership. The 2016 list also raises the foreign investment cap in the following sectors, though not fully to 100 percent: online marketplaces under IDR 100 billion (USD $7.4 million), tourism sectors, distribution and warehouse facilities, logistics, and manufacturing and distribution of medical devices. In

certain sectors, restrictions are looser for foreign investors from other ASEAN countries. Though the energy sector saw a little change in the 2016 revision, foreign investment in construction of geothermal power plants up to 10 MW is permitted with an ownership cap of 67 percent while the operation and maintenance of such plants is capped at 49% foreign ownership. For investment in certain sectors, such as mining and higher education, the 2016 Negative Investment List is useful only as a starting point, as additional licenses and permits are required by individual ministries. A number of sectors remain closed to foreign investment or are otherwise restricted. Notably, the 2016 revision added construction services up to IDR 50 billion (USD $3.4 million) and construction consulting services with a value up to IDR 10 billion (USD $) to the list of enterprises reserved for micro, small and medium enterprises (MSMEs). The salvage of undersea artifacts from shipwrecks was added to the list of fields closed to both domestic and foreign investment. In November 2016, Bank Indonesia (BI) introduced a regulation imposing a foreign ownership limit of 20 percent for companies that offer electronic payment services. Foreigners may purchase equity in state-owned firms through initial public offerings. Capital investments in publicly listed companies through the stock exchange are not subject to Indonesia's Negative Investment List unless an investor is buying a controlling interest.

Other Investment Policy Reviews

The latest World Trade Organization (WTO) Investment Policy Review of Indonesia was conducted in April 2013 and can be found on the website.

The most recent OECD Investment Policy Review of Indonesia, conducted in 2010, can be found on the OECD website.

UNCTADs report on ASEAN Investment can be found online.

Business Facilitation

Business Registration

The Investment Coordination Board, or BKPM, serves as an investment promotion agency, a regulatory body, and the agency in charge of approving planned investments in Indonesia. As such, it is the first point of contact for foreign investors, particularly in manufacturing, industrial, and non-financial services sector. Some industries (e.g., financial services, oil and gas, and mining) require specific licenses from other relevant ministries or regulatory authorities.

In order to conduct business in Indonesia, foreign investors must be incorporated as a foreign-owned limited liability company in Indonesia (PMA). To apply for a principle license, investors must provide: a company deed legalized by a notary; clearance for the Indonesian company's name from the Ministry of Law and Human

Rights; the company's certificate of domicile; a tax identification number; and proof of registration with either the Ministry of Industry or Ministry of Trade. Investors are also required to participate in the Workers Social Security Program or BPJS. Once an investor has obtained a principle license he may apply for a business license. At this stage, investors must: document their legal claim to the proposed project land/location; provide an environmental impact statement (AMDAL); show proof of submission of an "investment realization report"; and provide a recommendation from relevant ministries as necessary. Previously the business registration process averaged 260 days. Following the January 2015 establishment of a one stop service center by the BKPM, which includes representatives of 21 ministries/agencies, the process has been reduced to 24.9 days according to the 2017 World Bank's Ease of Doing Business report, placing Indonesia 91st out of the 190 countries in the report. Special expedited licensing services are available for investors meeting certain criteria, such as making investments in excess of approximately USD $8 million or employing 1000 local workers, among others. After obtaining a principle investment license, investors in some designated industrial estates can directly start construction on projects. Other licenses such as construction environment permits can be applied for in parallel with construction, though they must still be obtained before commercial production commences.

Foreign investors are generally prohibited from investing in MSMEs in Indonesia, although the 2016 Negative Investment List opened some opportunities for partnerships in farming, catalog and online retail. In accordance with the Indonesian SMEs Law No. 20/2008, MSMEs are defined as enterprises with net assets less than IDR10 billion (about USD $7 million) or with a total annual sales under IDR 50 billion (USD $35 million). However, the Indonesian Central Bureau of Statistics defines MSMEs as enterprises with fewer than 99 employees. The GOI provides assistance to SMEs, including expanded access to business credit for SMEs in farming, fishery, manufacturing, creative business, trading and services sectors, a tax exemption for MSMEs with annual sales under IDR 200 million (USD $14,815 million)., and assistance with international promotion.

The Ministry of Law and Human Rights' implementation of an electronic business registration filing and notification system has dramatically reduced the number of days needed to register a company. Foreign firms are not required to disclose proprietary information to the government before investing.

Screening of FDI

BKPM is responsible for issuing investment licenses to foreign entities and has taken steps to simplify the application process through better coordination between various government institutions. BKPM has launched an online portal for its

National Single Window for Investment which allows foreign investors to apply for and track the status of licenses and other services online. In an effort to streamline the investment licensing and permitting process, BKPM launched a national one-stop-service center to coordinate many of the permits issued by more than a dozen ministries and agencies required for investment approval. While the BKPM one-stop- service center's goal is to help ease investment approvals, investments in the mining, oil and gas, plantation, and most other sectors still require multiple licenses from related ministries and authorities. Likewise, certain tax and land permits, among others, typically must be obtained from local government authorities. Though Indonesian companies only require one approval at the local level, businesses report that foreign companies often must obtain both administrative and de facto legislative approval in order to establish a business. In January, 2016, BKPM also launched a three-hour shop for investments in excess of IDR 100 billion (approximately USD $8 million) or employing at least 1,000 local workers and which meet certain other requirements.

The Coordinating Ministry of Home Affairs, the Ministry of Administrative Reform and Bureaucracy Reform, and BKPM issued a circulating letter on September 15, 2010, to clarify investment that crosses provincial and regional boundaries. Investment in a regency (a sub-provincial level of government) is managed by the regency government; investment that lies in two or more regencies is managed by the provincial government; and investment that lies in two or more provinces is managed by central government, or central BKPM. BKPM has plans to roll out its one-stop-shop structure to the provincial and regency level to streamline local permitting processes at more than 500 sites around the country.

Outward Investment

BKPM, as the investment promotion agency, facilitates outward investment and has designated a division to provide information about investment opportunities in and policies of other countries. The division provides consultation services to interested outward investors. The government does not restrict outward investment but also does not provide incentives for outward investment.

Bilateral Investment Agreements and Taxation Treaties

Indonesia has signed investment agreements with 64 countries, including: Algeria, Argentina, Australia, Bangladesh, Belgium, Bulgaria, Cambodia, Chile, China, Croatia, Cuba, Czech Republic, Denmark, Egypt, Finland, France, Germany, Guyana, Hungary, India, Iran, Italy, Jamaica, Jordan, Kyrgyzstan, Laos, Libya, Malaysia, Mauritius, Mongolia, Morocco, Mozambique, Netherland, Norway, Pakistan, Peru, Philippines, Poland, Qatar, Romania, Saudi Arabia, Singapore, Serbia, Slovak Republic, South Korea, Spain, Sri Lanka, Sudan, Suriname, Syria, Sweden,

Switzerland, Tajikistan, Thailand, Tunisia, Turkey, Turkmenistan, Ukraine, United Kingdom, Uzbekistan, Venezuela, Vietnam, Yemen, and Zimbabwe. Indonesia does not have a bilateral investment treaty (BIT) with the U. S.

In 2014 Indonesia began to abrogate its existing BITs by allowing the agreements to expire. In 2016 21 BITs expired, including those with Argentina, Bulgaria, Cambodia, China, Egypt, France, Hungary, India, Italy, Laos, Malaysia, Netherlands, Norway, Pakistan, Romania, Singapore, Spain, Slovakia, Switzerland, Turkey, and Vietnam. A new model BIT is currently being developed and should be concluded in 2017.

Under the ASEAN Free Trade Agreement, duties on imports from ASEAN countries generally range from 0 percent to 5 percent, except for products specified on exclusion lists. Indonesia also provides preferential market access to Australia, China, Japan, Korea, India, Pakistan, and New Zealand under regional ASEAN agreements and to Japan under a bilateral agreement. In accordance with the ASEAN-China FTA, in August 2012 Indonesia increased the number of goods from China receiving duty-free access to 10,012 tariff lines. Indonesia is currently negotiating bilateral agreements with Iran, India, Australia, New Zealand, South Korea, and European Free Trade Association, studying potential FTAs with Chile, Turkey, Tunisia, Mexico, South Africa, and Egypt. The ASEAN Economic Community (AEC) arrangement came into effect on January 1, 2016, and is expected to reduce barriers for goods, services and some skilled employees across ASEAN. Indonesia is also participating in negotiations for the Regional Comprehensive Economic Partnership (RCEP), which includes the 10 ASEAN Member States and 6 additional countries (Australia, China, India, Japan, Korea and New Zealand). In March 2017, RCEP entered the 17th round of negotiations, which included discussion on trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, e-commerce, SMEs and other issues.

The U.S. and Indonesia signed the Convention between the Government of the Republic of Indonesia and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of the Fiscal Evasion with Respect to Taxes on Income in Jakarta on July 11, 1988. This was amended with a Protocol, signed on July 24, 1996. There is no double taxation of personal income.

Legal Regime

Transparency of the Regulatory System

Indonesia continues to bring its legal, regulatory, and accounting systems into compliance with international norms, but progress is slow. Notable successes include passage of a comprehensive anti-money laundering law in late 2010 and a land acquisition law in January 2012, with revised implementing regulations issued

in 2015. Although Indonesia continues to move forward with regulatory system reforms, these efforts have not yet created a level playing field for foreign investors, nor does the current regulatory system establish clear and transparent rules for all actors. Certain laws and policies, including the Negative List, establish sectors that are either fully off-limits to foreign investors or are subject to substantive conditions.

Decentralization has introduced another layer of bureaucracy for firms to navigate, resulting in costly red tape. Ineffective management, resistance from vested interests, and corruption are among the challenges faced by the GOI in launching bureaucratic reform. U.S. businesses cite regulatory uncertainty and a lack of transparency as two ongoing factors hindering operations. Government ministries and agencies, including the Indonesian Parliament, continue to publish many proposed laws and regulations in draft form for public comment; however, not all draft laws and regulations are made available in public fora. Laws and regulations are often vague and require substantial interpretation by the implementers, leading to business uncertainty and rent-seeking opportunities.

Regulatory consultation in Indonesia is inconsistent, at best, despite the existence of Law 10/2004 on the Formulation of Regulations, article 53 of which states that the community is entitled to provide oral or written input into draft laws and regulations, and Law 12/2010 which further expands this right.

International Regulatory Considerations

Ministries and agencies are required to provide draft regulations to the National Standards Body of Indonesia (BSN) to be included in the National Program for Technical Regulation. BSN has primary responsibility to notify draft regulations to the WTO; however, in practice, notification is inconsistent.

Legal System and Judicial Independence

Indonesia's legal system is based on civil law. The court system consists of District Courts (primary courts of original jurisdiction), High Courts (courts of appeal), and the Supreme Court (the court of last resort). Indonesia also has a Constitutional Court. The Constitutional Court has the same legal standing as the Supreme Court, and its role is to review the constitutionality of legislation. Both the Supreme and Constitutional Courts have authority to conduct judicial reviews.

The court system often does not provide effective recourse for resolving property and contractual disputes. Cases that would be adjudicated in civil courts in other jurisdictions sometimes result in criminal charges in Indonesia. Judges are not bound by precedent and many laws are open to various interpretations.

A lack of clear land titles has plagued Indonesia for decades, although the land acquisition law enacted in December 2011 included legal mechanisms designed to resolve some past land ownership issues. Indonesia also has a poor track record on the legal enforcement of contracts and civil disputes are sometimes criminalized. Government Regulation 79 of 2010 opened the door for the GOI to remove recoverable costs from production sharing contracts. The GOI is also requiring mining companies to renegotiate their contracts of work to require higher royalties, more divestment, more local content, and domestic processing of mineral ore.

Indonesia's commercial code, grounded in colonial Dutch law, has been updated to include provisions on bankruptcy, intellectual property rights, incorporation and dissolution of businesses, banking, and capital markets. Application of the commercial code, including the bankruptcy provisions, remains uneven, in large part due to corruption and training deficits for judges, prosecutors, and defense lawyers.

Laws and Regulations on Foreign Direct Investment

FDI in Indonesia is regulated by Law 25/2007 (the Investment Law). Under the law, any form of FDI in Indonesia must be in the form of a limited liability company, with the foreign investor holding shares in the company. In addition, the government outlines restrictions on FDI in presidential decree 44/2016, issued in May 2016, commonly referred to as the 2016 Negative Investment List. It aims to consolidate FDI restrictions in certain sectors from numerous decrees and regulations to create greater certainty for foreign and domestic investors. The 2016 Negative Investment List enables greater foreign investments in some sectors like film, tourism, logistics, health care, and e-commerce. A number of sectors remain closed to investment or are otherwise restricted. The 2016 Negative List contains a clause that clarifies that existing investments will not be affected by the 2016 revisions. The website of the Investment Coordination Board (BKPM) provides information on investment requirements and procedures.

Competition and Anti-Trust Laws

The Indonesian Competition Authority (KPPU) implements and enforces the 1999 Indonesia Competition Law. The KPPU reviews agreements, business practices and mergers that may be deemed anti-competitive, advises the government on policies that may affect competition, and issues guidelines relating to the Competition Law.

Expropriation and Compensation

The GOI generally recognizes and upholds the property rights of foreign and domestic investors, and the 2007 Investment Law opened major sectors of the economy to foreign investment, while assuring investors' protection from nationalization, except where corporate crime is involved. However, Indonesia's

economic nationalism continues to manifest itself through negotiations, policies, regulations, and laws that erode investor value. These include local content requirements, requirements to divest equity shares to Indonesia stakeholders, and requirements to establish manufacturing or processing facilities in Indonesia.

In 2012, the GOI issued a regulation requiring foreign-owned mining operations to divest majority equity to Indonesian shareholders within 10 years of operational startup using cost of investment incurred, rather than market value, for purposes of divestment valuation. In October 2014, with Regulation 77/2014, the government eased the foreign ownership restrictions to 60 percent for companies that smelt domestically (40 percent divestment) and 70 percent for companies that operate underground mines (30 percent divestment). However, regulations enacted in January 2017 again require foreign-owned miners to gradually divest over ten years 51 percent of shares to Indonesian interests, with the price of divested shares determined based on fair market value and not taking into account existing reserves. Implementation of the new regulations has just begun, but the government has indicated it intends the majority-share divestment requirement to supersede Regulation 77/2014 and apply to all foreign investors in the sector. Based on the 2009 Mining Law, the GOI required that mining contracts of work be renegotiated to alter terms in favor of the GOI, including royalty and tax rates, local content levels, domestic processing of minerals, and reduced mine areas. Some mining companies had to reduce the size of their original mining work area without compensation.

In general, Indonesia's rising resource nationalism supports the idea that domestic interests should not have to pay prevailing market prices for domestic resources. In the oil and gas sector, the GOI is increasingly explicit in its policy that expiring production sharing contracts operated by foreign companies be transferred to domestic interests rather than extended. While there is no obligation of compensation under the production sharing contract, this policy has begun to affect the Indonesian business interests of foreign companies.

The Law on Land Acquisition Procedures for Public Interest Development passed in December 2011 sought to streamline GOI acquisition of land for much-needed infrastructure projects. The law seeks to clarify roles, reduce the time frame for each phase of the land acquisition process, deter land speculation, and curtail obstructionist litigation, while still ensuring safeguards for land-right holders. The implementing regulations, first approved in 2012, went into effect on January 1, 2015; further revisions in 2015 expanded the scope of the new provisions. Some reports indicate that the law has reduced land acquisition timelines; with no accusations of illegal GOI expropriation of land.

Dispute Settlement

ICSID Convention and New York Convention

Indonesia is a member of the International Center for Settlement of Investment Disputes (ICSID) and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Thus, foreign arbitral awards are legally recognized and enforceable in the Indonesian courts, but, in practice, are not always enforced.

Investor-State Dispute Settlement

Since 2004, Indonesia has faced seven Investor-State Dispute Settlement (ISDS) arbitration cases including those that have been settled and ongoing cases. In December 2016, an International Centre for Settlement of Investment Disputes (ICSID) tribunal ruled in favor of Indonesia in the 2012 arbitration case of British firm Churchill Mining vs Indonesia. Currently, there are two on-going arbitration cases involving Indonesia, with Indian firm Indian Metals & Ferro Alloys, and Singaporean firm Oleovest.

Indonesia recognizes binding international arbitration of investment disputes in its bilateral investment treaty agreements (BITs). However, in response to a perceived increase in the number of arbitration cases submitted to ICSID, in February 2014 Indonesia began to allow its existing BITs, numbering more than 60, to expire as soon as the agreement allowed. BKPM formed an expert team to review the current generation of BITs and formulate a new modern model BIT that would more effectively protect national interests. The Indonesian model BIT is currently under legal review for finalization.

International Commercial Arbitration and Foreign Courts

Judicial handling of investment disputes remains mixed. Indonesia's legal code recognizes the right of parties to apply agreed upon rules of arbitration. Some arbitration but not all is handled by Indonesia's domestic arbitration agency, the Indonesian National Arbitration Body.

Companies have resorted to ad hoc arbitrations in Indonesia using the UN Commission on International Trade Laws (UNCITRAL model law) arbitration rules. Though doing business in Indonesia remains challenging, there is not a clear pattern or significant record of investment disputes involving U.S. or other foreign investors. The court system in Indonesia works slowly. International arbitration awards, when enforced, may take years from original judgment to payment.

Bankruptcy Regulations

Indonesian Law No. 37/2004 on Bankruptcy and Suspension of Obligation for Payment of Debts is decidedly pro-creditor and the law makes no distinction between domestic and foreign creditors. As a result, foreign creditors have the same rights as all potential creditors in a bankruptcy case, as long as foreign claims are submitted in compliance with underlying regulations and procedures. Monetary judgments in Indonesia are made in local currency.

Industrial Policies

Investment Incentives

The GOI offers a tax holiday scheme that exempts certain businesses from paying corporate income taxes for up to ten years under Ministry of Finance Decree No. 130/PMK.011/2011. Businesses must have operated as a legal entity in Indonesia for at least 12 months prior to the issuance of the tax holiday regulation, among other requirements. Priority is given to investment in resource extraction, resource refinement, industrial machinery, renewable resources, telecommunications equipment, or pioneer sectors. Government Regulation No. 62 of 2008 provides a tax incentive program for projects conducted in national high-priority sectors, which encompass 128 different fields. Businesses may only apply for one tax incentive: either the tax holiday or the tax incentive program. On August 27, 2015, the GOI released an updated tax holiday incentive under Ministry of Finance Decree No. 159/PMK.010/2015 in order to increase investment, especially in pioneer industries. The GOI still retains the majority of the existing tax holiday policy, with changes aimed at relaxing and simplifying the provision of facilities. The coverage of pioneer sectors was expanded to include the following industries:

- upstream metal;
- petroleum refining;
- organic basic chemicals derived from petroleum and natural gas;
- industrial machinery production;
- marine transportation;
- the processing industry when it is the major industry in a Special Economic Zone (SEZ);
- telecommunications information and communication; and
- processing based on agricultural, forestry, and fisheries products.

The updated regulation also extended the time frame for the tax holiday facility to 5 to 15 years, or up to 20 years at the discretion of the Minister of Finance. In addition,

the GOI issued Government Regulation No. 9/2016 expanding regional tax incentives for certain business categories in May 2016. Apparel, leather goods, footwear industries in all regions are now eligible for the tax incentives. In this regulation, existing tax facilities are maintained, including:

- Deduction of 30 percent from taxable income over a 6 year period
- Accelerated depreciation and amortization
- 10 percent of withholding tax on dividend paid by foreign taxpayer or a lower rate according to the avoidance of double taxation agreement
- Compensation losses extended from 5 to10 years with certain condition for companies that are:
    - Located in industrial or bonded zone
    - Developing infrastructure
    - Using at least 70 percent domestic raw material
    - Absorbing 500 to 1000 laborers
    - Doing research and development (R&D)
    - Reinvesting capital
    - Exporting at least 30 percent of their product

In October 2016, the GOI offered a new incentive to entrepreneurs in Indonesia's footwear and textiles sectors that employ at least 2,000 workers and export 50 percent of their total sales. The authorities also give a 50 percent discount on income tax from 5 percent to 2.5 percent to those workers who earn a maximum of IDR 50 million (USD $3,850) per year, who participate in Indonesia's national healthcare and social security (BPJS) program.

Research and Development

At present, Indonesia does not have formal regulations granting national treatment to U.S. and other foreign firms participating in Government-financed or subsidized research and development programs. The State Ministry for Research and Technology, and Higher Education handles applications on a case-by-case basis.

Natural Resources

Indonesia's vast natural resource wealth has attracted significant foreign investment over the last century and continues to offer significant prospects. But a variety of government regulations have made doing business in the resources sector increasingly difficult, and Indonesia now ranks near the bottom, 88th of 96

jurisdictions in the Fraser Institute's Mining Policy Perception Index. In 2012, the GOI banned the export of raw minerals, dramatically increased the divestment requirements for foreign mining companies, and required major mining companies to renegotiate their contracts of work with the government. The ban on the export of raw minerals went into effect in January 2014. In July 2014, the government issued regulations that allowed, until January 2017, the export of copper and several other mineral concentrates with export duties and other conditions imposed. When the full ban came back into effect in January 2017, the GOI issued new regulations that again allowed exports of copper concentrate and other specified minerals but imposing even more onerous requirements. Of note for foreign investors, provisions of the regulations require that to be able to export non-smelted mineral ores, companies with contracts of work must convert to mining business licenses—and thus be subject to prevailing regulations—and must commit to build smelters within the next five years. Also, foreign-owned mining companies must gradually divest over ten years 51 percent of shares to Indonesian interests, with the price of divested shares determined based on fair market value and not taking into account existing reserves. The 2009 mining law devolved the authority to issue mining licenses to local governments, who have responded by issuing more than 10,000 licenses, many of which overlap or are unclearly mapped. In the oil and gas sector, Indonesia's Constitutional Court disbanded the upstream regulator in 2012, injecting confusion and more uncertainty into the natural resources sector. Until a new oil and gas law is enacted, upstream activities are supervised by the Special Working Unit on Upstream Oil and Gas (SKK Migas).

Infrastructure

Since taking office in October 2014, President Jokowi and his administration have made infrastructure development a top priority. The government announced plans to add 35,000 megawatts of electricity capacity and create a maritime nexus, to include the development and/or expansion of 24 ports and other transportation infrastructure. The current institutional arrangement for infrastructure development still suffers from overlap of functions, lack of capacity for public-private partnership (PPP) projects in regional governments, lack of solid value-for-money methodologies, crowding out of the private sector from state-owned enterprises (SOE), legal uncertainty, lack of a solid land-acquisition framework, long-term operational risks for the private sector, unwillingness from stakeholders to be the first ones to step in the new and fragile system, and especially, lack of an institutional champion. Currently infrastructure development is largely taking place through SOEs, with PPPs having only a marginal share of infrastructure projects.

Foreign Trade Zones/Free Trade/ Trade Facilitation

The GOI offers incentives to over 1,500 foreign and domestic industrial companies that operate in bonded, or special trade, zones throughout Indonesia. The largest bonded zone is the free trade zone (FTZ) island of Batam, located just south of Singapore. Neighboring Bintan Island and Karimun Island also enjoy FTZ status. Investors in FTZs are not required to apply for additional implementation licenses (location, construction, and nuisance act permits and land titles), and foreign companies are allowed 100 percent ownership. These companies are also exempt from import duty, income tax, VAT, and sales tax on imported capital goods, equipment, and raw materials until the portion of production destined for the domestic market is "exported" to Indonesia, in which case fees are owed only on that portion. Companies operating in FTZ may lend machinery and equipment to subcontractors located outside of the zone for a maximum two-year period.

Ministry of Finance Regulation No. 147/2011 stipulates that the delivery of products outside of bonded zones into the domestic market is set at a maximum of 25 percent (down from 50 percent) of export realization value of the previous year. If a bonded zone company exceeds the 25 percent limitation, its domestic quota for the next year will be reduced. The new regulation also restricts subcontract work and requires bonded zones less than 10,000 square meters in size to relocate to industrial estates.

As stipulated by the 2007 Investment Law, the Indonesian Legislature (DPR) passed regulations on special economic zones (SEZ) in 2009. The government has created ten special economic zones so far, although development at the SEZ sites remains limited. The SEZs are in Tanjung Lesung, Banten, Sei Manke, North Sumatera, Palu, Central Sulawesi, Bitung, North Sulawesi, Mandalika, West Nusa Tenggara, Morotai, North Maluku, Tanjung Api Api, South Sumatera, Maloy Batuta in Kalimantan, Sorong in West Papua, and Tanjung Kelayang in Bangka Belitung. In March 2016, the government released Presidential Regulation 8/2016 that will change the status of Batam FTZ to an SEZ during 2016 in an effort to boost foreign and domestic investment. The government contends that the change will provide further investment incentives in Batam, including tax holidays and deductions, accelerated amortization, and other benefits in addition to the incentives currently offered in the FTZ. The Batam SEZ will continue to be operated by the Batam Industrial Free Trade Zone Authority, the agency that operates the existing free trade zone. Presidential Regulation 8/2016 does not affect the status of the neighboring FTZs on Bintan and Karimun islands.

In an effort to improve logistics and reduce costs, the government designated 11 companies bonded logistics centers in March 2016. Companies that utilize these

multifunctional logistics warehouses will enjoy tax incentives such as deferred import duties and taxes, VAT exemptions, and other benefits. The government intends to designate up to 50 bonded logistics centers throughout Indonesia by the end of 2017.

Performance and Data Localization Requirements

Performance Requirements

The GOI expects foreign investors to contribute to the training and development of Indonesian nationals, allowing the transfer of skills and technology required for their effective participation in the management of foreign companies. As a general rule, a company can hire foreigners only for positions that the government has deemed open to non-Indonesians. Employers must have training programs aimed at replacing foreign workers with Indonesians. If a direct investment enterprise wants to employ foreigners, the enterprise should submit an Expatriate Placement Plan to BKPM to get a Limited Stay Visa or Semi-Permanent Residence Visa (VITAS/VBS). Expatriates are issued a Limited Stay Permit (KITAS) and a blue book, valid for two years and renewable for up to two extensions without leaving the country. The foreign worker must meet education, work experience, and Indonesian language requirements and commit to transfer knowledge to an Indonesian counterpart. Under Ministry of Manpower regulations, any expatriate who holds a work and residence permit must contribute USD $1,200 per year to a fund for local manpower training at regional manpower offices. Some U.S. firms report difficulty in renewing KITASs for their foreign executives. In 2013, the government issued new regulations on the employment of foreigners, including a regulation specific to the oil and gas sector that limits the types of positions expatriates can hold and imposes an age cap of 55 years on foreign executives. In December 2013, the Ministry of Manpower issued Regulation 12 on Procedures for Employing Foreign Manpower. The new regulation made some changes to the previous 2008 regulation, including the introduction of a new mechanism to hire temporary foreign workers and simplification of the permit process for foreigners married to Indonesians.

In October, 2015 the Minister of Manpower issued a regulation abolishing a previously-required ratio of foreign to local workers of 10:1 and abolishing the need for a short-term work permit for most business travelers. However, a short-term work permit (max 6 months) is still required for activities such as making a commercial movie, conducting audits, quality control, or inspections for periods exceeding 30 days. The GOI has repeatedly discussed establishing an Indonesian language proficiency requirement for long-term expatriates in Indonesia, and some local governments have language requirements in place, though they do not appear to be enforced.

With the passage of the defense law in October 2012 and subsequent implementing regulations in October 2014, the GOI established a policy that imposes offset requirements for procurements from foreign defense suppliers. Current laws authorize Indonesian end users to procure defense articles from foreign suppliers if those articles cannot be produced within Indonesia, subject to Indonesian local content and offset policy requirements. On that basis, U.S. defense equipment suppliers are still competing for contracts with local partners. The 2014 implementing regulations still require substantial clarification regarding how offsets and local content are determined, and the GOI has not yet completed production of an official English-language translation. According to the legislation and subsequent implementing regulations, an initial 35 percent of any foreign defense procurement or contract must include local content, and this 35 percent local content threshold will increase by 10 percent every five years following the 2014 release of the implementing regulations until a local content requirement of 85 percent is achieved. The law also requires a variety of offsets such as counter-trade agreements, transfer of technology agreements, or a variety of other mechanisms, all of which are negotiated on a per-transaction basis. The implementing regulations also refer to a "multiplier factor" that can be applied to increase a given offset valuation depending on "the impact on the development of the national economy." Decisions regarding multiplier values, authorized local content, and other key aspects of the new law are in the hands of the Defense Industry Policy Committee (KKIP), an entity comprising GOI interagency representatives and defense industry leadership. KKIP leadership indicates that they still determine multiplier values on a case-by-case basis, but have said that once they conclude an industry-wide gap analysis study they will publish a standardized multiplier value schedule. According to GOI officials, rules for offsets and local content apply to major new acquisitions only, and do not apply to routine or recurring procurements such as those required for maintenance and sustainment.

WTO/TRIMS

The GOI notified the WTO of its compliance with Trade-Related Investment Measures (TRIMS) on August 26, 1998. The 2007 Investment Law states that the GOI shall provide the same treatment to both domestic and foreign investors originating from any country. The government pursues policies to promote local manufacturing that could be inconsistent with TRIMS requirements, such as linking import approvals to investment pledges, or requiring local content targets to be met some sectors.

Data Localization Requirements

In 2012, the government issued Government Regulation 82 requiring certain "public service providers" to establish data storage and disaster recovery centers on Indonesian soil. Regulation 82/2012 calls for "public service providers" to localize data domestically by October 2017, and ministries are moving ahead with data localization requirements in new regulations, including data privacy and peer-to-peer lending regulations issued in late 2016. The government continues to evaluate how to implement data localization requirements, including how to define "public service providers" under Regulation 82/2012, but it appears likely that data localization rules will affect financial and other service delivery companies. Despite prior public statements that the government will amend Regulation 82/2012 or otherwise ease data localization requirements, the GOI has yet to take definitive steps in this direction. Over the protests of foreign private-sector insurance companies, the OJK's Regulation 69/2016 mandates insurance and sharia insurance companies to onshore their data by October 12, 2017.

Protection of Property Rights

Real Property

The Basic Agrarian Law of 1960, the predominant body of law governing land rights, recognizes the right of private ownership and provides varying degrees of land rights for Indonesian citizens, foreign nationals, Indonesian corporations, foreign corporations, and other legal entities. Indonesia's 1945 Constitution states that all natural resources are owned by the GOI for the benefit of the people. This principle was augmented by the passage of a land acquisition bill in December 2011 that enshrined the concept of eminent domain and established mechanisms for fair market value compensation and appeals. The National Land Agency registers property under Regulation No. 24 of 1997, though the Ministry of Forestry administers all 'forest land'. Registration is sometimes complicated by local government requirements and claims as a result of decentralization. Registration is also not conclusive evidence of ownership, but rather strong evidence of such. Government Regulation (PP) No. 103 of 2015 on house ownership by foreigners domiciled in Indonesia allows foreigners to have a property in Indonesia with the status of a "right to use" for a maximum of 30 years, with extensions available for up to 50 additional years. Indonesia ranks 118 on the World Bank's Ease of Registering Property ranking of the Doing Business Report.

Intellectual Property Rights

Indonesia is currently on the U.S. Trade Representative's (USTR) Special 301 priority watch list for intellectual property rights (IPR) protection. Indonesia's failure to effectively protect intellectual property and enforce IPR laws has resulted in high levels of physical and online piracy. The International Intellectual Property Alliance estimates that in a given month, 18 million copies of pirated films, music, and

software are circulating in Indonesian physical and online markets. Harco Glodok, Indonesia's largest trade center for consumer electronics and related goods, is included on USTR's Notorious Markets list in 2017.

Indonesian efforts to enhance IP protection policy were mixed this year. The revised Patent Law, enacted in July 2016, contains several provisions that threaten fundamental IP protections. Among these concerns are apparent restrictions on the patentability of computer programs and new uses and forms of existing drugs, requirements to manufacture products or use processes covered by patents in Indonesia, disclosure requirements related to traditional knowledge and genetic resources, and the grounds and processes for issuing compulsory licenses. Indonesia also enacted a new Law on Trademarks in November 2016 that includes provisions that have the potential to improve efficiency and consumer protection. Among these are a shortened and simplified examination period that may reduce Indonesia's significant trademark application backlog. The new law also broadens protection for non-traditional marks, including three-dimensional, sound, and holographic marks, and increases criminal penalties and maximum fines (up to 10 years and approximately USD $155,000 in some cases). The law also provides a mechanism for Indonesia to accede to the Madrid Protocol, following implementing regulations.

In July 2015 the Directorate General for Intellectual Property (DGIP) and Ministry of Communications and Information Technology (Kominfo) jointly released implementing regulations under the Copyright Law to provide for rights holders to report websites that offer IP-infringing products and sets forth procedures for blocking IP-infringing sites. In August 2015, Indonesia's Creative Economy Agency (Bekraf) launched an anti-piracy task force with film and music industry stakeholders. In late 2016, Bekraf reported that 43 websites were blocked following a recommendation from task force members to Kominfo, and that 160 websites containing infringing material were in process to be blocked.

The Directorate General for Intellectual Property (DGIP) now employs 20 investigators and conducted 58 investigations in 2016. BPOM, Indonesia's food and drug administration, reported the seizure of more than USD $4 million in counterfeit drugs and cosmetics during the year. Trademark, Patent, and Copyright legislation requires a rights-holder complaint for investigations, and DGIP and BPOM investigators lack the authority to make arrests so must rely on police cooperation for any enforcement action. In 2012, the Supreme Court ruled that Customs may obtain rights for temporary injunctions to suspected counterfeit shipments at the border. However, Customs still cannot exercise ex officio powers, as intended in the 2006 amended customs law. The GOI is responsible for the storage and destruction of seized counterfeit goods, although rights-holders have contributed to the cost of destroying IP-infringing goods in the past.

Resources for Rights Holders

Additional information regarding treaty obligations and points of contact at local IP offices, can be found at the World Intellectual Property Organization (WIPO) country profile website .For a list of local lawyers, see the U.S. Embassy in Indonesia's website.

Financial Sector

Capital Markets and Portfolio Investment

The Indonesia Stock Exchange (IDX) index has 535 listed companies and reached capitalization as high as USD $440.15 billion in March 2017. There were 16 initial public offerings in 2016. As of March 2017, domestic entities conducted more than half of total IDX stock trades (61 percent). In 2011, the IDX launched the Indonesian Sharia Stock Index (ISSI), its first index of sharia-compliant companies, primarily to attract greater investment from Middle East companies and investors. As of March 2017 the ISSI is composed of 329 stocks listed on IDX's Jakarta Composite Index.

Government treasury bonds are the most liquid bonds offered by the GOI. Treasury bills are less liquid due to their small issue size. Liquidity in BI-issued Sertifikat Bank Indonesia (SBI) is also limited due to the three-month required holding period. The GOI also issues sukuk (Islamic treasury notes) treasury bills as part of efforts to diversify Islamic debt instruments and increase their liquidity. Indonesia's sovereign debt as of March 2017 was graded as BB+ by Standard and Poor, BBB- by Fitch Ratings and baa3 by Moody's.

The Financial Services Supervisory Authority (OJK) assumed BI's supervisory role over commercial banks as of January 1, 2014 and began overseeing the capital markets and non-banking institutions on January 1, 2013, replacing the Capital Market and Financial Institution Supervisory Board.

Foreigners have good access to the Indonesian securities market and are a major source (38 percent of government securities) of portfolio investment. Indonesia respects International Monetary Fund (IMF) Article VIII by refraining from restrictions on payments and transfers for current international transactions. Foreign ownership of Indonesian companies may be limited in certain industries as determined by the Negative Investment List.

Money and Banking System

Although there is some concern regarding the operations of the many small and medium sized family-owned banks, the banking system is generally considered sound, with banks enjoying some of the widest interest rate margins in the region. As of December 2016 the ten largest banks have IDR 3,702 trillion (USD $278.35

billion) in total assets. Loans grew 7.9 percent in December 2016 (10.5 percent in 2015). Gross non-performing loans in December 2016 stood at 2.9 percent.

Foreigners may purchase up to 99 percent of the total shares of a domestic bank through private placement or on the stock exchange, but purchases of 25 percent or more require BI approval. Foreign banks may establish branches if the foreign bank is ranked in the top 200 global banks by assets. To establish a representative office, the foreign bank must be ranked in the top 300 global banks by assets. A special operating license is required from BI in order to establish a foreign branch.

BI has limited bank ownership to no more than 40 percent by any single shareholder, applicable to foreign and domestic shareholders, thus requiring foreign bank branches to become subsidiaries. An exception was granted in 2015 for foreign banks buying two small banks and merging them together.

On September 8, 2015 OJK eased rules for foreigners opening a bank account in Indonesia. Foreigners can open a bank account with a balance between USD $2,000-50,000 with just their passport. For accounts greater than USD $50,000, they will need to show a supporting document such as a reference letter from a bank in the foreigner's country of origin, a local domicile address, a spousal identity document, copies of a contract for a local residence, and/or credit/debit statements.

Foreign Exchange and Remittances

Foreign Exchange

The rupiah (IDR), the local currency, is freely convertible. Currently, banks must report all foreign exchange transactions and foreign obligations to the Bank of Indonesia (BI). With respect to the physical movement of currency, any person taking cash into or out of Indonesia in the amount of IDR 100 million (approximately USD $7,450) or more, or the equivalent in another currency, must report the amount to the Director General of Customs and Excise.

Banks on their own behalf or for customers may conduct derivative transactions related to derivatives of foreign currency rates, interest rates, and/or a combination thereof. BI requires borrowers to conduct their foreign currency borrowing through domestic banks registered with BI. The regulations apply to borrowing in cash, non-revolving loan agreements, and debt securities.

Under the 2007 Investment Law, the GOI gives assurance to investors relating to the transfer and repatriation of funds, in foreign currency, on:

- capital, profit, interest, dividends and other income;

- funds required for (i) purchasing raw material, intermediate goods or final goods, and (ii) replacing capital goods for continuation of business operations;
- additional funds required for investment;
- funds for debt payment;
- royalties;
- income of foreign individuals working on the investment;
- earnings from the sale or liquidation of the invested company;
- compensation for losses;
- and compensation for expropriation.
- U.S. firms report no difficulties in obtaining foreign exchange.

BI began in 2012 to require exporters to repatriate their export earnings through domestic banks within three months of the date of the export declaration form. Once repatriated, there are currently no restrictions on re-transferring export earnings abroad. Some companies report this requirement is not enforced.

In March 2015 GOI announced a regulation requiring the use of rupiah in domestic transactions. While import and export transactions can still use foreign currency, importers' transactions with their Indonesian distributors must now use rupiah, which has impacted some U.S. business operations. The application of these rules to various financial transactions remains vague and uneven.

Remittance Policies

The government places no restrictions or time limitations on investment remittances. However, certain reporting requirements exist. Any transfer of funds in excess of USD $10,000, whether incoming or outgoing, must be reported to Bank Indonesia (BI) along with the reason for the transfer.

Carrying more than IDR 100 million (approximately USD $7,450) in cash out of Indonesia requires prior approval from BI, as well as verifying the funds with Indonesian Customs upon arrival. Indonesia does not engage in currency manipulation.

As of June 2015, Indonesia is no longer subject to the intergovernmental Financial Action Task Force (FATF) monitoring process under its on-going global Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) compliance process. It

continues to work with the Asia/Pacific Group on Money Laundering (APG) to further strengthen its AML/CTF regime.

Sovereign Wealth Funds

Indonesia does not operate a traditional sovereign wealth fund, but several SOEs invest in the domestic market. On December 21, 2015 the Finance Ministry authorized one of those SOEs, PT Sarana Multi Infrastruktur (SMI) to manage the assets of the Pusat Investasi Pemerintah (PIP), or Government Investment Center (which had previously been seen as a potential sovereign wealth fund). SMI can use the funds for direct investment in infrastructure financing, the placement of funds in the form of government securities, Bank Indonesia Certificates, and/or other financial instruments in accordance with the provisions of laws. Indonesia does not participate in the IMF's Working Group on Sovereign Wealth Funds.

State-Owned Enterprises

Indonesia had 118 central government SOEs as of December 2016, 10 of which contributed more than 85 percent of total SOE profit. Twenty are listed on the Indonesian stock exchange and 14 are special purpose entities under the SOE ministry with one under the Ministry of Finance (the Indonesian Infrastructure Guarantee Fund). Since mid-2016, the Indonesian government has been publicizing plans to consolidate SOEs into six holding companies based on sector of operations. Information regarding the SOEs can be found at the SOE Ministry website (http://www.bumn.go.id/) (Indonesian only). There are also an unknown number of SOEs owned by regional or local governments. SOEs are present in almost all sectors/industries including banking (finance), tourism (travel), agriculture, forestry, mining, construction, fishing, energy, and telecommunications (information and communications). In 2015 (the most recent data available), SOE profits increased by 0.2 percent year-on-year to IDR 149 trillion (USD $11.4 billion) compared to 2014. As of the end of 2016, SOEs employ around 781,760 people. As of December 30, 2016, the 20 listed state-owned companies had a market capitalization amounting to IDR 11,443 trillion (USD $86 billion) or 25.52 percent of the total capitalization of shares listed on the Stock Exchange. Spending by SOEs on research and development varies by sector.

Indonesia is not a party to the WTO's Government Procurement Agreement. Private enterprises can compete with SOEs under the same terms and conditions with respect to access to markets, credit, and other business operations. However, many sectors report that, in reality, SOEs receive strong preference for GOI projects. SOEs purchase some goods and services from private sector and foreign firms. SOEs publish an annual report and are audited by the Supreme Audit Agency (BPK), the

Financial and Development Supervisory Agency (BPKP), and external and internal auditors.

Privatization Program

While some state-owned enterprises have offered shares on the stock market, Indonesia does not have an active privatization program.

Responsible Business Conduct

In general Indonesian businesses do not have awareness of the broad concept of responsible business conduct (RBC) as a comprehensive management paradigm. Indonesian companies tend to focus on corporate social responsibility (CSR) programs offering community and economic development, and educational projects and programs. This is at least in part caused by the fact that such projects are often required in the environmental impact permits (AMDAL) of resource extraction companies, which undergo a good deal of domestic and international scrutiny of their operations. Because a large proportion of resource extraction activity occurs in remote and rural areas where government services are limited or absent, these companies face very high community expectations to provide such services themselves. Despite significant investments – especially by large multinational firms – in CSR projects, there is limited general awareness of those projects, even among government regulators and officials.

The government does not have an overarching strategy to encourage or enforce RBC, but regulates each area through the relevant laws (environment, labor, corruption, etc.). These laws, as with all laws in Indonesia, are not always enforced evenly. The National Commission on Human Rights announced plans to create a National Action Plan on Business and Human Rights in Indonesia, which they say will incorporate the UN Guiding Principles on Business and Human Rights. The Commission reports that numerous companies violate human rights principles, most regularly in agrarian conflicts.

The Financial Services Authority (OJK) regulates corporate governance issues, but the regulations and enforcement are not yet up to international standards for shareholder protection.

OECD Guidelines On Corporate Governance Of SOEs

Indonesia does not adhere to the OECD Guidelines for Multinational Enterprises, nor does the government make efforts to encourage adherence to those guidelines or to the United Nations Guiding Principles on Business and Human Rights. The government does not encourage adherence to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

or any other supply chain management due diligence guidance. Indonesia does participate in the Extractive Industries Transparency Initiative (EITI). Indonesia was suspended by the EITI Board in February 2015 due to a missed deadline for its first EITI Report, but the suspension was lifted following publication of its 2012-2013 EITI Report in November 2015. The EITI Board declared Indonesia EITI compliant on October 15, 2014.

Corruption

President Jokowi was elected in 2014 on a strong good-governance platform. However, corruption remains a serious problem according to some U.S. companies, preventing increased FDI. Although the government has issued detailed directions on combating corruption in targeted ministries and agencies, there has not been a concerted government-led effort to encourage or require companies to establish internal codes of conduct, or effective internal controls, ethics, and compliance programs to detect and prevent bribery of public officials. A new Supreme Court regulation and statements by the national Corruption Eradication Commission (KPK) indicate that the government will begin prosecuting companies who engage in public corruption under new corporate criminal liability guidance.

Indonesia's ranking in Transparency International's Corruption Perceptions Index in 2016 is 90 out of 176 countries globally, a slight decline from 2015's ranking of 88 and 4th of the 10 ASEAN countries. Corruption remains pervasive despite laws to combat it. The KPK remains one of the most trusted institutions in Indonesian public life, and President Jokowi successfully opposed a bill that would have weakened the KPK's ability to conduct its work. The KPK is authorized to conduct investigations, indictments, and prosecutions in corruption cases that involve law enforcement officers, government executives, or other parties connected to corrupt acts committed by law enforcement officers or government executives; have attracted the "attention and the dismay" of the general public; and/or involve a loss to the State of at least IDR 1 billion (approximately USD $74,500). Corruption cases are also handled by the Indonesian National Police and Attorney General's Office, neither of which have the same organizational capacity to investigate or prosecute corruption cases. Giving or accepting a bribe is a criminal act, with possible fines ranging from USD $3,850 to USD $77,000 and imprisonment up to a maximum of 20 years or life imprisonment, depending on the severity of the charge.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Indonesia ratified the UN Convention against Corruption in September 2006. Indonesia has not yet acceded to the OECD Anti-Bribery Convention, but attends meetings of the OECD Anti-Corruption Working Group. In 2014 Indonesia chaired the Open Government Partnership, a multilateral platform to promote transparency,

empower citizens, fight corruption, and strengthen governance. Several civil society organizations function as vocal and competent corruption watchdogs, including Transparency International Indonesia and Indonesia Corruption Watch.

Resources to Report Corruption

Komisi Pemberantasan Korupsi (Anti-Corruption Commission)

Jln. HR Rasuna Said Kav. C1 Kuningan
Jakarta Selatan 12920
informasi@kpk.go.id

Indonesia Corruption Watch
Jl. Kalibata Timur IV/D No. 6 Jakarta Selatan 12740
Tel: +6221.7901885 or +6221.7994015
Email: info@antikorupsi.org

Political and Security Environment

As in other democracies, politically motivated demonstrations occasionally occur throughout Indonesia, but are not a major or ongoing concern for most foreign investors.

Fighting terrorism remains a top priority for the Indonesian government, and President Jokowi has demonstrated a continued strong commitment to combating terrorism. Since the 2002 Bali bombings, which killed over 200 Indonesians and foreigners, Indonesian police have applied sustained pressure to successfully degrade the capabilities of terrorists and their networks operating within Indonesia's borders. Nonetheless, U.S. designated terrorist organizations Jemaah Islamiyah (JI) and Jemaah Anshourt Daulah (JAD), as well as other violent extremist groups continue to plot attacks. Indonesia has effectively pursued counterterrorism efforts through legislation and law enforcement. The January 14, 2016 terrorist attack in central Jakarta and subsequent small-scale attack linked to JAD demonstrated that these groups continue to demonstrate a willingness and ability to carry out attacks with little or no warning (though operational capabilities remain weak). There is also concern about Indonesians traveling to Syria or Iraq as foreign terrorist fighters; several hundred Indonesians are estimated to have traveled to the Middle East to join violent groups operating there. The primary target of terrorists remains local government and law enforcement entities, especially the police, though ISIL-affiliated Indonesians have increasing called for targeting U.S. and Western-affiliated interests as well.

Foreign investors in Papua face certain unique challenges. Indonesian security forces occasionally conduct operations against the Free Papua Movement, a small

armed separatist group that is most active in the Central Highlands region. Low-intensity communal, tribal, and political conflict also exists in Papua and has caused deaths and injuries. Anti-government protests have resulted in deaths and injuries, and violence has been committed against employees and contractors of a U.S. company there.

Labor Policies and Practices

The Indonesian labor market is generally open and flexible, although there are significant restrictions on the use of contract workers. Recent significant increases in the minimum wage for many provinces have made unskilled and semi-skilled labor more costly. In the bellwether Jakarta area, following a 44 percent increase in 2012, the minimum wage was raised again from IDR 3.1 million (USD $229.6) in 2015 to IDR 3.3 million (USD $244.4) at the end of 2016. Unions staged largely peaceful protests across Indonesia in 2016 demanding a 20 percent increase in the minimum wage and the repeal of the new formulation used to set up the minimum wage. Under the new wage setting policy adopted as part of the October economic stimulus package, annual minimum wage increases will be indexed directly to inflation and GDP growth. Previously, minimum wage adjustments were subject to negotiations between local governments, industry, and unions, and the changes varied widely from year to year and from region to region. In response to labor protests, many local governments negotiated higher minimum wage levels at the end of 2016 resulting in different wage increase calculations based on sectoral formulas. With the new sector-based calculation, in Jakarta the new minimum wage in the electronics sector was 30 percent higher or IDR 4.0 million (USD $296.3), while in West Java, the minimum wage in the automotive sector was set at IDR 4.1 million (USD $303.7).

As only about 7.6 percent of the workforce is unionized, the benefits of union advocacy (including increases in minimum wage) do not always filter down to the rest of the workforce. While restrictions on the use of contract workers remain in place, continued labor protests focusing on this issue suggest that government enforcement continues to be lax. Unemployment decreased slightly to 5.5 percent in October 2016. Unemployment tends to be higher than the national average among young people.

Indonesian labor is relatively low-cost by world standards, but lack of adequate skills training and complicated labor laws combine to make Indonesia's competitiveness lag behind other Asian competitors. Investors frequently cite high severance payments to dismissed employees, restrictions on outsourcing and contract workers, and limitations on expatriate workers as significant obstacles to new investment in Indonesia. In October 2015, the Ministry of Labor issued a revised

regulation No.35/2015 on the Procedures of Hiring Foreign Workers to lighten requirements for companies to bring in foreign employees. The new regulation eliminates the provision that required companies to hire 10 local staff for every foreign worker hired, and dropped the requirement of work permits for foreigners who participate in seminars, speeches, workshops, board meetings, and trainings. The new regulation still prohibits local companies from hiring foreign employees as commissioners. Employers also note that the skill base provided by the education system is lower than that of neighboring countries, and successive Labor Ministers have listed improved vocational training as a top priority. Labor contracts are relatively straightforward to negotiate but are subject to renegotiation, despite the existence of written agreements. Local courts often side with citizens in labor disputes, contracts notwithstanding. On the other hand, some foreign investors view Indonesia's labor regulatory framework, respect for freedom of association, and the right to unionize as an advantage to investing in the country. Expert local human resources advice is essential for U.S. companies doing business in Indonesia, even those only opening representative offices.

Minimum wages vary throughout the country as provincial governors set an annual minimum wage floor and district heads have the authority to set a higher rate. Indonesia's highly fractured and historically weak labor movement has gained strength in recent years, evidenced by significant increases in the minimum wage. As noted above, recent changes to the minimum wage setting system may make the process less dependent on political factors and more aligned with actual changes in inflation and GDP growth. Labor unions are independent of the government. The law, with some restrictions, protects the rights of workers to join independent unions, conduct legal strikes, and bargain collectively. Indonesia has ratified all eight of the core ILO conventions underpinning internationally accepted labor norms. The Ministry of Labor maintains an inspectorate to monitor labor norms, but enforcement is stronger in the formal than in the informal sector. In January 2014, Indonesia launched a national insurance plan. In October 2011, the Indonesian government passed a revised Social Security Law, which took effect in January 2014, in which all formal sector workers must participate. Subject to a wage ceiling, employers' must contribute an amount equal to 4 percent of workers' salaries to this plan. In July 2015, Indonesia established the Social Security Organizing Body of Employment (BPJS-Employment), a national agency to support workers in the event of work accident, death, retirement, or old age.

A proposed revision to Indonesia's 2003 labor law may establish more stringent restrictions on outsourcing, currently used by many firms to circumvent some formal-sector job benefits.

Additional information on child labor, trafficking in persons, and human rights in Indonesia can be found online through the following references:

- Child Labor Report
- Trafficking in Persons Report
- Human Rights Report

OPIC and Other Investment Insurance Programs

In 2010, the Overseas Private Investment Corporation (OPIC) updated its 1967 Investment Support Agreement between the U.S. and Indonesia by adding OPIC products such as direct loans, coinsurance, and reinsurance to the means of OPIC support which U.S. companies may use to invest in Indonesia.

Indonesia has joined the Multilateral Investment Guarantee Agency (MIGA). MIGA, a part of the World Bank Group, is an investment guarantee agency to insure investors and lenders against losses relating to currency transfer restrictions, expropriation, war and civil disturbance, and breach of contract.

Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical Source*		**USG or International Statistical Source**		**USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other**
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M USD)	2015	$969.052	2015	$861,934	World Bank

*Bank of Indonesia, GDP from the host country website is converted into USD with the exchange rate 11,900 for 2015

					Other
U.S. FDI in partner country ($M USD, stock positions)	2015	$603.02	2015	$13,546	BEA: Direct Investment
Host country's FDI in the United States ($M USD, stock positions)	N/A	N/A	2015	1,577	BEA: Direct Investment

*Bank of Indonesia

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment 2015			**Outward Direct Investment 2015**		
Total Inward	218,454	100%	Total Outward	30,171	100%
Singapore	49,716	23%	N/A		
United States	26,871	20%			
Netherlands	21,839	11%			
Japan	21,210	7%			
United Kingdom	21,192	5%			
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF Coordinated Direct Investment Survey for inward investment data. World Investment Report 2016 UNTCAD for outward investment data, country specific data for outward investment is unavailable.

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	13,090	100%	All Countries	3,759	100%	All Countries	9,433	100%
Netherlands	3,276	28.04%	Singapore	912	24.27%	United States	1,239	13.14%
China (PR Mainland)	1,501	9.82%	China (PR Mainland)	633	16.85%	Netherlands	1,217	12.90%
China (PR Hong Kong)	1,358	5.27%	China (PR Hong Kong)	373	9.92%	Luxembourg	811	8.60%
United States	1,101	4.50%	Cayman Islands	106	2.83%	China (PR Mainland)	705	7.48%
Singapore	876	1.60%	United States	41	1.09%	Singapore	498	5.28%

Source: IMF Coordinated Portfolio Investment Survey, 2016

Contact for More Information

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Trade & Project Financing

Methods of Payment

U.S. firms exporting to Indonesia use a variety of payment methods depending on their relationship with the purchaser. Payment options for export transactions include letters of credit (L/C), cash in advance, wire transfer, cash on delivery, and open account.

Confirmed, irrevocable letters of credit, while imposing additional costs, minimize risks faced by the exporter. In 2010, the Ministry of Trade issued 27/M-

DAG/PER/6/2010, cancelling regulation No.1/M-DAG/PER/1/2009, which required the use of a letter of credit through a domestic foreign exchange bank for exports of specified commodity exports, including coffee, CPO, cocoa, rubber, and mining products.

Banking Systems

As of February 2017, Indonesia had 115 commercial banks and 1,630 rural banks. The largest four banks hold over 45 percent of bank assets. As ranked by assets, the following are the four largest state-owned banks: Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, and BNT. Bank Indonesia (BI), the central bank of Indonesia and an independent state institution, and the Financial Services Authority ("Otoritas Jasa Keuangan" or OJK) regulate key aspects of the banking and financial system, including bank regulation and supervision.

Indonesia is encouraging the development of Islamic banking and seeks to increase its share of total banking assets to over five percent. As of February 2017, Islamic banking institutions in Indonesia comprised 3.74 percent of total banking system assets. The Deposit Insurance Corp. (LPS) guarantees bank deposits up toIDR 2 billion (about US$150,000). Only those accounts carrying interest rates equal to or below LPS maximum guaranteed reference rates are deemed eligible for LPS deposit guarantees. Those rates are 7.0 percent on rupiah deposits and 0.75 percent on foreign currency deposits.

The Indonesian Export Financing Agency (LPEI), which operates under the name of Indonesia Ex-Im Bank, provides competitive export financing and advisory and other exported related services. The export credit agency's goal is to help promote access to worldwide markets for Indonesia's export-related commodities, support Indonesia's international trade, and improve Indonesian exporter competitiveness in global markets.

Foreign Exchange Controls

Indonesia maintains an open capital account, but with some transaction limitations. Only authorized banks may carry out foreign trade related exchange operations. BI requires the submission of evidence of underlying transactions to support the purchase of a foreign currency against the rupiah through banks exceeding $25,000 per month (regulation 17/49/DPM). BI regulation No. 7/14/PBI/2005, dated June 14, 2005 describes prohibitions and restrictions in conducting foreign exchange transactions with foreign counterparts.

As part of a series of measures designed to strengthen the Indonesian rupiah and help reduce the current account deficit Bank Indonesia issued a regulation in 2015 (17/3/PBI/2015), mandating that all domestic financial transactions must be

conducted in rupiah. While this was predicted to have a serious impact on some U.S. businesses operating in Indonesia, the regulation's exemptions have helped to moderate the extent to which foreign firms are affected.

This rule stipulated that the mandatory use of Rupiah for "all transactions in Indonesia that are for the purpose of payment, all transactions in Indonesia that are for the settlement of other obligations that must be fulfilled with money, and all other financial transactions in Indonesia." However, the regulation also contained many exemptions, including:

- Certain transactions related to state budget revenue and expenditure, such as receipts from oil and gas royalties
- Acceptance or provision of grants from or to overseas entities
- Transactions for the purpose of international trade
- Bank deposits in foreign currencies
- International financial transactions where either the provider or the receiver of the financing is domiciled overseas
- Business activities in foreign exchange conducted by banks pursuant to the law that regulates banking and sharia banking
- Foreign exchange transactions involving commercial paper issued by the Government in primary markets or secondary markets pursuant to the law regulating state debentures and state sharia commercial paper

Other foreign exchange transactions that are conducted in accordance to previous laws regarding financial sector regulation such as the Bank Indonesia Law, the Capital Investment Law and the Indonesian Export Financing Institutions Law.

The 17/3/PBI/2015 regulation also provides that if businesses have trouble implementing the mandatory use of rupiah for non-cash transactions, Bank Indonesia may issue them exemptions. In issuing these exemptions, BI will consider the readiness of the business actor, the continuity of the business activity, as well as investment activity and the interests of national economic development.

The limit on transaction amounts for commercial banks engaging in derivative transactions with foreign counterparts is $1 million. This limit covers all types of transactions involving foreign exchange selling and purchasing against

the rupiah, rupiah – such transactions were previously unrestricted. . However, the restrictions will not apply if the derivative transactions are conducted for hedging purposes within the framework of an investment in Indonesia that will last for at least three months. The regulation also requires foreign or domestic currency lending to foreign counterparts to be conducted in the form of a syndicated loan that engages a prime bank (that is, commercial banks with a certain investment rating from a well know rating agency) as lead bank for the purpose of project financing in the real estate sector in Indonesia. For violations, the regulation levies a fine of 10 percent of the transaction's value.

In line with anti-money laundering laws, Indonesia tightened its restrictions on the amount of cash that may be carried across its borders. Carrying more than Rp100 million (approx. U.S. $8500) out of Indonesia requires prior approval from BI, and must be reported to the Director General of Customs and Excise (DGCE). A 10% fine up to Rp300 million may be applied for failure to report. Persons bringing in more than Rp 100 million must declare the amount. Under a new BI regulation dated May 5, 2017 and effective from March 5, 2018, no one except banks and licensed money changers will be allowed to bring in banknotes equivalent to Rp 1 billion ($75,130).

Exporters in Indonesia must repatriate their export earnings from offshore banks to domestic banks within 90 days from the date of the export declaration form. Once repatriated to Indonesia, there are no restrictions on exporters from re-transferring their export earnings back to an offshore bank.

BI also requires borrowers to conduct their foreign currency borrowing through domestic banks registered with BI. The regulations apply to borrowing in cash, non-revolving loan agreements, and debt securities.

US Banks & Local Correspondent Banks

BANK OF AMERICA MERRILL LYNCH

Jakarta Stock Exchange Building, Tower II, 23th Floor

Jl. Jendral Sudirman Kav. 52-53

Jakarta 12190

Tel (62-21) 2955-3723

J.P. MORGAN CHASE BANK

The Energy Building, Fifth and Sixth Floors

SCBD Lot 11 A

Jl. Jendral Sudirman Kav.52-53

Jakarta 12190

Tel (62-21) 5291-8181

Fax (62-21) 5291-8511

CITI INDONESIA

Citibank Tower, 7th Floor

Jl. Jendral Sudirman Kav.54-55

Jakarta 12910

Tel (62-21) 5290-8301/8302

Fax (62-21) 5290-8303

WELLS FARGO BANK, N.A.

Jakarta Representative Office

Indonesia Stock Exchange Building

Tower 2, 20th Fl.

Jl. Jendral Sudirman Kav.52-53

Jakarta Selatan, 12910

Tel (62-21) 5152978

Fax (62-21) 5152968

Project Financing

Indonesia has prioritized infrastructure development in its medium-term development plan, or Rencana Pembangunan Jangka Menengah 2015-2019 (RPJM). The Government's estimate for infrastructure development during this period is USD 399.67 billion. State and regional budget will contribute 41.25%, state-owned enterprise 22.23% and private 36.52%

U.S. firms should also familiarize themselves with opportunities available through the Asian Development Bank, or World Bank-funded projects.

U.S. Commercial Service Liaison Offices at the Multilateral Development Banks (Asian Development Bank, World Bank)

The Commercial Service maintains Commercial Liaison Offices in each of the main Multilateral Development Banks, including the Asian Development Bank and the World Bank. These institutions lend billions of dollars in developing countries on projects aimed at accelerating economic growth and social development by reducing poverty and inequality, improving health and education, and advancing infrastructure development. The Commercial Liaison Offices help American businesses learn how to get involved in bank-funded projects, and advocate on behalf of American bidders. Learn more by contacting the Commercial Liaison Offices to the Asian Development Bank and the World Bank.

Financing Web Resources

Commercial Liaison Office to the Asian Development Bank

Commercial Liaison Office to the World Bank

Export-Import Bank of the United States

Country Limitation Schedule

OPIC

Trade and Development Agency

SBA's Office of International Trade

USDA Commodity Credit Corporation

U.S. Agency for International Development

Business Travel

Business Customs

The best time for an initial business trip is September through June, as school holidays and vacation time in the summer months can impact the availability of many business people. Visitors should check the local holiday schedule before traveling to Indonesia, and in particular should try to avoid the Muslim fasting month of Ramadhan, during which appointments are often difficult to schedule, as well as the two weeks after Ramadan when Indonesians typically travel home to celebrate Eid or Idhul Fitri with their families. The normal business attire is a

lightweight business suit or white shirt, tie and slacks for men, and a business suit or dress for women.

Indonesia is a very diverse country, with more than 300 different ethnic groups. While some Indonesians are traditional, others may be considerably "Westernized." Many Indonesians do not conduct business transactions or make decisions in the same direct fashion Americans do, so U.S. business people should be prepared to spend a good deal of time with clients before getting down to the business transaction. Traditional Javanese culture emphasizes harmony and the word "no" is rarely used. This can make it difficult for a Westerner to ascertain exactly how a business proposal is being received. Patience and the development of personal relations is the key. Because Indonesians do business with "friends," people who they know, developing a rapport is crucial. While quality and price are important, they are often secondary to the personal interaction of the business partners.

During business meetings, tea or coffee is almost always served and should be accepted. It should not be consumed until the host invites you to do so, which may not occur until the end of the meeting. Generally speaking, it is best to use the right hand in receiving or eating. Although hand shaking is a common practice, avoid hearty handshakes and other physical contact. Do not show the soles of your shoes when seated.

Business travelers to Indonesia seeking appointments with U.S. Embassy Jakarta officials should contact the U.S. Commercial Service in advance. The U.S. Commercial Service can be reached by telephone at (62-21) 526-2850, fax at (62-21) 526-2855 or by e-mail: office.jakarta@trade.gov.

Travel Advisory

Travelers visiting Indonesia may wish to review the State Department Country Specific Information for Indonesia.

Visa Requirements

U.S. citizens traveling to Indonesia for business purposes are required to have a valid visa. Visas can be obtained by applying at the Indonesian Embassy in Washington or at their Consulates in New York, Los Angeles, Houston, and Chicago. Visas on arrival (30-day visa) are available at the airport in Jakarta, Surabaya, Medan, Denpasar and several other large cities for a fee of $35. All travelers to Indonesia must have a passport valid for at least six months from the date of arrival in Indonesia as well as an onward/return ticket. Indonesian authorities regularly deny entry to Americans who arrive with less than six months validity on their passports. U.S. citizens travelling for tourism only may qualify for a visa exemption for no fee.

Travelers are strongly urged to check with their airline and with the Indonesian Embassy or the Directorate General of Immigration at the following links, as requirements can change on short notice.

For more a more detailed explanation of entry and exit requirements please see the Country Specific Information for Indonesia on the Department of State's website.

U.S. companies that require travel of foreign businesspersons to the United States should be advised that security evaluations are handled via an interagency process. Applicants for visas to the United States should go to the following link.

State Department Visa Website

Currency

The local currency is the Rupiah.

Telecommunications/Electric

Many homes and offices in large urban areas already have landlines installed. Some of the areas are served by fiber optic lines. However, most homes in rural areas rely only on cell phones. Indonesia has slightly more than 10 million landlines in total across the nation. Public pay phones are no longer available. Landline telephone numbers have between five and eight digits. Seven digit numbers are the most common, while newer numbers have eight digits. Smaller towns outside Jakarta still maintain five to six digit numbers. International direct dial (IDD) lines are served by two operators PT Indosat (001) and PT Telkom (007). To make an international direct call from landline numbers, dial operator's prefix number either 001 or 008, follow by country code + area code + phone number.

At 320 million subscribers Indonesians primarily use cell phones, commonly referred to as "hand phones". If you have an unlocked smartphone, SIM cards are easily purchased at many stores and kiosks. There is a wide range of GSM-based cell phone operators in Indonesia, including Telkomsel, XL Axiata, Indosat, Axis, and Hutchison 3, and Smartfren (CDMA), many having a 4G network coverage in limited areas. The first three operators are the market leaders. Voice Over Internet Protocol (VOIP) service offers a very efficient cost for international calls compared to placing calls from landline numbers. All of the operators offer pre-paid service with voice and data packages. Wi-fi access is widely available in restaurants and cafes in the major metropolitan and tourist areas in Indonesia.

Transportation

Airlines flying into Jakarta include Garuda (the national airline), Qantas, Singapore Airlines, Cathay Pacific, KLM, and a number of other regional carriers. Connections can be made to all major airlines, including U.S. carriers, in Singapore,

Japan or Hong Kong. No U.S. airlines currently fly to Indonesia. Internal flights are readily available, but connections outside Jakarta are often problematic. There is a rail network, but it is generally not appropriate for business travel. Caution must be taken when traveling by car, as traffic conditions are significantly worse than in the US. Taxis in Jakarta are plentiful, but it is suggested to use only taxi services available at your hotel: Silver Bird, Blue Bird, and Express are the most reliable and safest taxi services. Uber and Grab are often used in Jakarta via their mobile applications. Golden Bird cars and drivers can be hired by the day, and cost around $100 per day.

Language

The national language spoken across Indonesia is called Bahasa Indonesia, though there are also many local languages. English is widely spoken and understood in Jakarta by most business people, although much less so in other cities. Most hotels have English-speaking staff, as do the shopping centers that cater to expatriates and tourists. International telephone operators also speak English. The level of English can vary widely in all situations. Indonesian firms hoping to conduct business with foreigners generally try to employ some English speakers, but it is not expected within every company.

Health

Short-term visitors to Indonesia are advised to be up-to-date on their Hepatitis A, Hepatitis B, and Typhoid vaccinations, in addition to all routine childhood immunizations before arrival. The hepatitis vaccination series takes six months to complete. Those considering travel outside the major cities (Jakarta, Surabaya, Medan, southern Bali, etc.) should take anti-malaria medication; mefloquine or doxycycline is considered adequate prevention measures against malaria. Physicians in the United States should be able to answer questions pertaining to immunizations and other health concerns.

Air pollution in the larger cities causes a number of common respiratory ailments to both visitors and long-term residents. Air quality in Jakarta is reported by two monitors maintained by the U.S. Embassy, and measurements can be consulted online.

Dehydration as a result of intestinal illnesses can be a serious, even life-threatening, condition if not treated. Persons suffering from severe diarrhea may obtain an oral re-hydration solution from a local pharmacy. If vomiting makes it impossible to adequately re-hydrate, visit a clinic immediately.

Avian Influenza – Indonesia has experienced several outbreaks of Avian Influenza (AI). Economic hardship and ignorance of modern disease control methods have

combined to make Indonesia's AI control efforts somewhat ineffective. Of the 196 cases confirmed from 2003 to date in Indonesia, 164 have been fatal. Americans who travel to Indonesia should obtain up to date health information before departing the U.S.

Zika - Zika virus is a risk in Indonesia. Because Zika infection in a pregnant woman can cause serious birth defects, women who are pregnant should not travel to Indonesia. All travelers should strictly follow steps to prevent mosquito bites and sexual exposure to Zika virus during and after the trip.

The websites of the U.S. Centers for Disease Control and the World Health Organization have up to date information on outbreaks of contagious and tropical diseases.

There are a few modern, well-equipped clinics and hospitals in Jakarta that are considered adequate for minor illnesses, but expatriates generally prefer to fly to Singapore or their home countries for treatment of serious illnesses and/or operations. An adequate pre-hospital emergency system, similar to the "911" system in the U.S., does not exist in any Indonesian cities. Many local hospitals operate their own ambulances, with no common standards. Response time can be prolonged. In the event of illness or emergency, the following clinics and hospitals are among those frequented by expatriates in Jakarta:

SOS Medika Klinik Cipete, South Jakarta

Jl. Puri Sakti No. 10, Cipete

Jakarta 12410

Admin and Office Telephone: (62-21) 750-5973

Fax: (62-21) 750-6002

Clinic Appointment: (62-21) 750-5980

24 Hour Emergencies: (62-21) 750-6001

Email: DL.IDN.Clinic.CustomerFeedback@internationalsos.comhttps://www.internationalsos.com/locations/asia-pacific/indonesiaSOS Medika Klinik Kuningan, Central Jakarta

Menara Prima, 2nd Floor

Jl. DR. Ide Anak Agung Gde Agung Blok 6.2

Kawasan Mega Kuningan

Jakarta 12950

Telephone: (62-21) 5794-8600

Fax: (62-21) 5794-8686

Global Doctor Indonesia

Jl. Kemang Raya No. 87

Jakarta 12730

Tel: (62-21) 719-4565

Fax:(62-21)719-8969

Food: Exercise reasonable care in food preparation at home and menu selection while eating out because of questionable sanitation practices. Imported meats, vegetables, and packaged foods are readily available from most stores in the Carrefour, Giant, Hypermart and Hero grocery stores chain (locations throughout Jakarta), at all Sogo department stores, at Kem Chicks, and Ranch Market grocery stores.

Drinking tap water anywhere in Indonesia is not advised. Use commercial bottled water from your hotel or purchase from a supermarket. "Aqua" is one of the more common brands used by expatriates. Avoid buying bottled water from street vendors if possible.

Short-term visitors to Indonesia are well advised to eat only in hotels and restaurants that cater to international tourists. Caution, however, should also be exercised in such "5-star" establishments. Do not eat from street stalls. Avoid raw, unpeeled fruits and uncooked vegetables, food that is prepared in advance and then left to stand, raw or undercooked meats, seafood, and shellfish in questionable eating venues.

Local Time, Business Hours and Holidays

Indonesia has three time zones:

Eastern Indonesian time is 14 hours ahead of Eastern Standard Time (13 hours ahead of Eastern Daylight Time).

Central Indonesia time is 13 hours ahead of Eastern Standard Time (12 hours ahead of Eastern Daylight Time).

Western Indonesian time (including Jakarta) is 12 hours ahead of Eastern Standard Time (11 hours ahead of Eastern Daylight Time).

Business hours are generally:

Commerce

0900 -1700 Monday - Friday (note Friday prayers at 1200-1300)

Government

0730 – 1600 Monday – Friday

Banks

0900 – 1500 Monday – Friday

Shops

1000 – 2200 Monday – Sunday

Date	**Holiday**
Monday, January 02, 2017	New Year's Day
Monday, January 16, 2017	Birthday of Martin Luther King, Jr.
Monday, February 20, 2017	President's Day
Tuesday, March 28, 2017	Balinese Hindu's New Year
Friday, April 14, 2017	Good Friday
Monday, Aril 24, 2017	Ascension of Muhammad SAW
Monday, May 1, 2017	Labor Day
Thursday, May 11, 2017	Waicak Day
Monday, May 29, 2017	Memorial Day
Sunday-Monday, June 25-26, 2017	Idul Fitri 1438 H

Date	Holiday
Tuesday, , July 04, 2017	Independence Day (U.S.)
Thursday,August 17, 2017	Independence Day
Friday, September 1, 2017	Idul Adha 1438 H
Monday, September 04, 2017	Labor Day
Thursday, September 21, 2017	Islamic New Year
Monday, October 9, 2017	Columbus Day
Friday, November 10, 2017	Veterans Day
Thursday, November 23, 2017	Thanksgiving Day
Friday, December 1, 2017	Birthday of Prophet Muhammad SAW
Monday, December 25, 2017	Christmas Day

Holiday schedule

Temporary Entry of Materials or Personal Belongings

The GOI encourages foreign investors who export to locate their operations in bonded or export processing zones (EPZ). There are a number of EPZs in Indonesia, the most well-known being Batam Island, located 20 kilometers south of Singapore. Indonesia also has several bonded zones or areas that are designated as entry ports for export destined production (EPTE). Companies are encouraged to locate in bonded zones or industrial estates whenever possible. Other free trade zones include a facility near Tanjung Priok, Jakarta's main port, and a bonded warehouse in Cakung, also near Jakarta.

There is a duty drawback facility (BAPEKSTA) for exports located outside the zones. Foreign and domestic investors wishing to establish projects in a bonded area must apply to the Capital Investment Coordinating Board. Expatriates relocating to Indonesia should seek the advice of a qualified international relocation firm. Indonesia is a "Right Hand Drive" country and only vehicles with right hand steering wheels can be imported, even for personal use.

Travel Related Web Resources

Association of South East Asian Nations (ASEAN)

Expat.or.id

Department of Trade

Indonesian Investment Coordinating Board

Indonesiatourism.com

Indo.com