



ASEAN Business Guide

Indonesia

2018 edition



ASEAN Business Guide

This country report is extracted from *ASEAN Business Guide: The economies of ASEAN and the opportunities they present*.



INDONESIA

First established in 1957 as one of the first accounting firms by Drs. Basuki T. Siddharta, the story of our own growth and membership of the KPMG network parallels the growth of Indonesia. We are pleased to share this report which outlines our belief of what makes Indonesia such an attractive investment destination for local and foreign investors.

Strategically located between the Indian and Pacific Oceans, Indonesia is the largest country in Southeast Asia. It is rich in natural resources and agriculture products. With its growing young population, and large middle class with rising levels of disposable income, it also has the biggest consumption base in Southeast Asia.

Since 2000, Indonesia's GDP has steadily increased. The revamped political landscape has also allowed for a more robust government structure, political stability and reforms that are both social and pro-business. As a result, the country significantly improved its ranking in the World Bank's Ease of Doing Business index, up 19 positions to 72.

KPMG in Indonesia works closely with local businesses and potential investors on their investment decisions, and helps them navigate the local environment to build a successful business that also blends well with the local culture.

As part of the KPMG global network, we also have the breadth and depth of experience and expertise to serve the diverse needs of local and global companies in Indonesia.



Tohana Widjaja

Managing Partner
KPMG in Indonesia

INDONESIA

KEY COUNTRY FACTS



Indonesia, the largest country in Southeast Asia, is located between the Indian and Pacific oceans and is bordered by Malaysia, Singapore, East Timor and PNG. Indonesia is rich in natural resources such as coal, minerals (tin, gold, copper, nickel and bauxite), oil and gas, and has fertile land to support agricultural products. Those rich natural resources, together with the archipelago's strategic location, make Indonesia an attractive country for foreign investors.



GOVERNMENT

Republic



POPULATION

258.2
MILLION (2016)



CURRENCY

Indonesian Rupiah (IDR)



LANGUAGES

Bahasa Indonesia (akin to Malay, official), English, Chinese

RELIGIONS

Islam, Christianity, Hinduism, Others

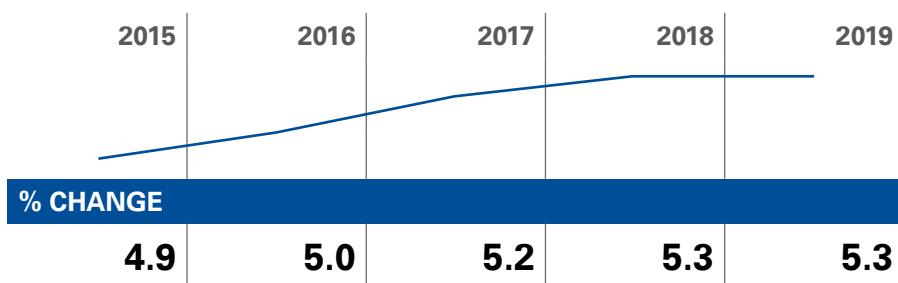
Source: Economist Intelligence Unit, CIA Factbook

RAPIDLY-GROWING ECONOMY

Indonesia has charted impressive economic growth since demonstrating its resilience during the 2008 global financial crisis. The country's gross national income per capita has steadily increased from USD857 in 2000 to USD3,603 in 2016.¹ Indonesia is the world's fourth most populous country, the tenth largest economy by purchasing power parity, and a member of the G-20.¹ Its massive young population and large middle class with rising levels of disposable income provide the platform for the biggest consumption base in Southeast Asia, a major driver of historical economic growth. As an emerging middle-income country, Indonesia has made enormous gains in poverty reduction, cutting the poverty rate by more than half since 1999, to 10.9% in 2016.¹

Economic Performance

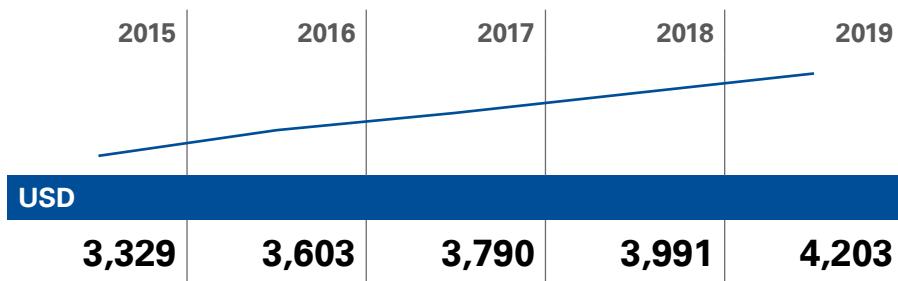
GDP constant prices*



* 2010 market price; percentage change after 2016 are estimates

Source: World Bank. *Indonesia Economic Quarterly*. March 2017; Ministry of Trade. *Produk Domestik Bruto*

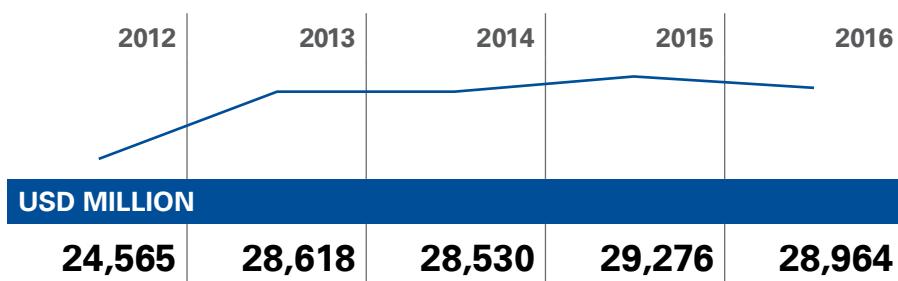
GDP per capita, current prices (CAGR 6.00%)



Figures after 2016 are estimates

Source: World Bank. *Indonesia Economic Quarterly*. March 2017

Foreign direct investment inflows



Source: Badan Pusat Statistik. *Foreign Direct Investment Realization by Economic Sector*; Indonesia Investment Coordinating Board. *Statistic of Foreign Direct Investment Realization based on Capital Investment Activity Report by Sector, Q4 2016*.

Main FDI investors



Singapore
USD 9.2 bil



Japan
USD 5.4 bil



China
USD 2.7 bil



Hong Kong
USD 2.2 bil



Netherlands
USD 1.5 bil

Source: Indonesia Investment Coordinating Board. *Domestic and Foreign Direct Investment Realization in Quarter IV And January - December 2016*

ASEAN'S LARGEST POPULATION

Indonesia's large population and consumption base is a fundamental reason why many multinationals rank this country as the foreign investment destination of choice in Southeast Asia.²

Indonesia has shown stable economic growth in recent years, outpacing other countries in Asia.³ An increase in domestic consumption from 4.7% in 2014 to 4.8% in 2016⁴ has been underpinned by healthy labor market outcomes and strong real wage increases.

Indonesia is a promising market given its large, young population; a legal system favorable to business growth; pro-business government; abundant raw materials; and strategic geographical position for trade.⁵

The growth sectors contributing to two-thirds of Indonesia's GDP are manufacturing, construction, wholesale and retail trade, information and communication, financial and insurance activity, and agriculture, forestry and fisheries. In 2017, there were several major foreign investments:

- France's Vinci Construction closed a USD500 million deal to build a tourist complex and motorbike racing circuit in Lombok while Engie Group signed three agreements to develop, co-finance, build, operate and maintain renewable energy projects valued at over USD1.25 billion over the next five years.⁶
- In March 2017 President Joko Widodo and visiting Saudi ruler, King Salman bin Abdulaziz, oversaw the signing of 11 cooperation agreements ranging from trade to aviation. The process started in 2016 with an agreement for a USD6 billion oil refinery between Saudi Aramco and Indonesia's PT Pertamina.⁷
- In May 2017, Go-jek received investment amounting to US1.2 billion from Tencent and several other companies. The deal values the company at \$3 billion post money.⁸
- Alibaba invested US\$1.1 billion in Tokopedia in August 2017. The investment has strengthened Tokopedia's position as the start up unicorn alongside Traveloka, Gojek and Bukalapak.⁹

Political stability



- Indonesia has undergone a political transformation since the upheaval of 1998. The country is now a vibrant democracy that is continuing to strengthen its political structures and deepen the enfranchisement of the population.¹⁰

Good governance and transparency



- Reforms since 2015 include releasing a string of reform packages, expanding investment in public infrastructure, reducing layers of government regulation, leveraging regional trade integration, and opening new areas of the economy to private investment.
- The 2016 tax amnesty and strengthening of tax collection has generated additional revenue to fund infrastructure investment.
- In 2016, the government issued several regulations designed to improve the investment environment in Indonesia. These include regulations on e-commerce, financial technology (fintech), cyber security, electronic information and transactions as well as protection of personal data in electronic systems.¹¹

Rankings

⁺ All rankings are global unless otherwise indicated

Source: *Doing Business 2018*, *World Bank*; *Corporate Governance Watch 2016*, *CLSA*, *Asian Corporate Governance Association (ACGA)*; *Corruption Perceptions Index 2016*, *Transparency International*; *Global Competitiveness Index 2017-2018*, *World Economic Forum*; *Global Innovation Index 2017*, *Cornell University*, *INSEAD* and *WIPO*

Index	Ranking ⁺
Ease of Doing Business	72
Corporate Governance Watch (Asia)	11
Intellectual Property Protection	46
Transparency of Government Policymaking	51
Corruption Perceptions Index	90
Global Competitiveness Index	36
Global Innovation Index	87

Sound economy



- Indonesia has continued to achieve strong GDP growth rates since 2008 of around 5% or more per annum which is among the highest in Southeast Asia. However more foreign investment is needed to drive growth higher. Investment historically has comprised around 30% of GDP.¹²

Large population and domestic consumption base



- With an estimated population of around 258.2 million people, Indonesia has a large domestic consumption base, and the country's middle class with increasing levels of disposable income and purchasing power has grown substantially from 7% of the population (15 million) in 2002 to 18% (45 million) in 2014.¹³

Rich in natural resources



- Indonesia is one of the world's leading thermal coal exporters, the second largest tin exporter and home to vast deposits of precious metals such as gold, silver, copper, nickel and bauxite. Indonesia also continues to be a major liquid natural gas (LNG) exporter. Indonesia's climate and highly-fertile soil make it suited to the cultivation of high-value agricultural commodities such as palm oil, rubber, coffee and cocoa.¹⁴

Young workforce



- Over 50% of the population is below the age of 30 and are highly adaptive to new technology. Reforms that can help narrow recognized skills gap between what employers need and what employees have – such as expanding vocational training opportunities – will help strengthen the economy's productivity.¹⁵

Guarantee facility for investors



- Indonesia has led the way among developing countries in creating a best practice-based guarantee facility for investors, the Indonesia Investment Guarantee Fund (IIGF). The IIGF, founded with the World Bank, provides guarantees for Public-Private-Partnership infrastructure projects such as toll roads, bridges, railroads, irrigation canals, wastewater infrastructure, telecommunication towers and power generators.¹⁶

Tax incentives



- The top marginal personal tax rate is 30% which applies to taxable income exceeding IDR500 million.
- A flat corporate tax rate of 25% applies. Listed companies which satisfy the minimum listing requirement of 40% and other conditions are eligible for a 5% reduction in the corporate tax rate. A company with gross turnover of less than IDR50 billion (approximately USD3.8 million) and which meets the required conditions is eligible for a corporate tax rate reduction of up to 50%.
- Withholding tax (WHT) is imposed at 20% on various amounts payable to non-residents, unless the non-resident has a permanent establishment in Indonesia, in which the rates for payments to residents apply.
- The standard rate of VAT in Indonesia is 10% and applies to goods, services and imports.
- There is a wide range of attractive tax incentives:¹⁷
 - Double tax relief
 - Credit for WHT directly paid on income received or accrued in a foreign country. The credit is limited to the lesser of the tax payable in Indonesia on the foreign income or the amount of the foreign tax paid.
 - Tax holiday
 - Income tax reduction of between 10% and up to 100% are available for 5-15 years (might be extended up to 20 years).
 - Industries eligible for tax holiday:
 - Upstream metal
 - Oil refinery
 - Organic basic chemicals based on oil and natural gas
 - Production of industrial machines
 - Processing based on agriculture, forestry and fisheries
 - Telecommunication, information and communication equipment
 - Maritime transportation
 - Processing industry that is the main industry in a Special Economic Zone
 - Economic infrastructure not included in the Government and Business project (KPBU) scheme.
 - Tax allowance
 - Total net income reduction of 30% of investment which is prorated at 5% per year for a six-year period
 - Extension of tax loss carry forward period of up to 10 years
 - Reduction of WHT on dividends paid to non-residents to 10% (or a lower rate according to the applicable double taxation agreement)
 - 145 business fields eligible for tax allowance
 - Direct tax incentives for new enterprises
 - Tax exemption on the import of capital goods and raw materials
 - Free trade zones and free port areas
 - No import duties and other taxes on the import of goods

- Mergers and acquisitions
 - Partial relief from 5% transfer of title tax on land and buildings, and full relief from 2.5% income tax on the transfer of land and buildings
- Special economic zones (SEZ)
 - Corporate income tax reduction granted to new taxpayers with new capital invested in the production chain of main activities in a SEZ (reduction ranges from 20% to 100% for a period of 5-25 years)
- Import duty exemptions
 - Import of machines, goods and materials for production exempt from import duty for a period of two years
 - Import duty exemption is granted for two years based on the installed machine capacity for production purposes and can benefit from a one-year extension
 - If the company uses at least 30% of local machines, import duty exemption is available for additional product for four years
 - Imported machines, goods and raw materials can be exempt from import duty if:
 - Not produced locally
 - Local machines are available but do not meet requirements¹⁸

Trade agreements



- Indonesia has entered into six regional and two bilateral free trade agreements (FTA). It also has preferential tariff arrangements with Malaysia, Bangladesh, Pakistan, Iran, Egypt, Turkey and Nigeria.

Bilateral FTAs¹⁹

Agreements signed between Indonesia and a single trading partner



Indonesia-Japan Economic Partnership Agreement²⁰

- Covers over 90% of goods (agriculture & industrial products) Indonesia exports to Japan
- Scrapping of import duties for most export products
- Stabilize Japan's FDI in Indonesia

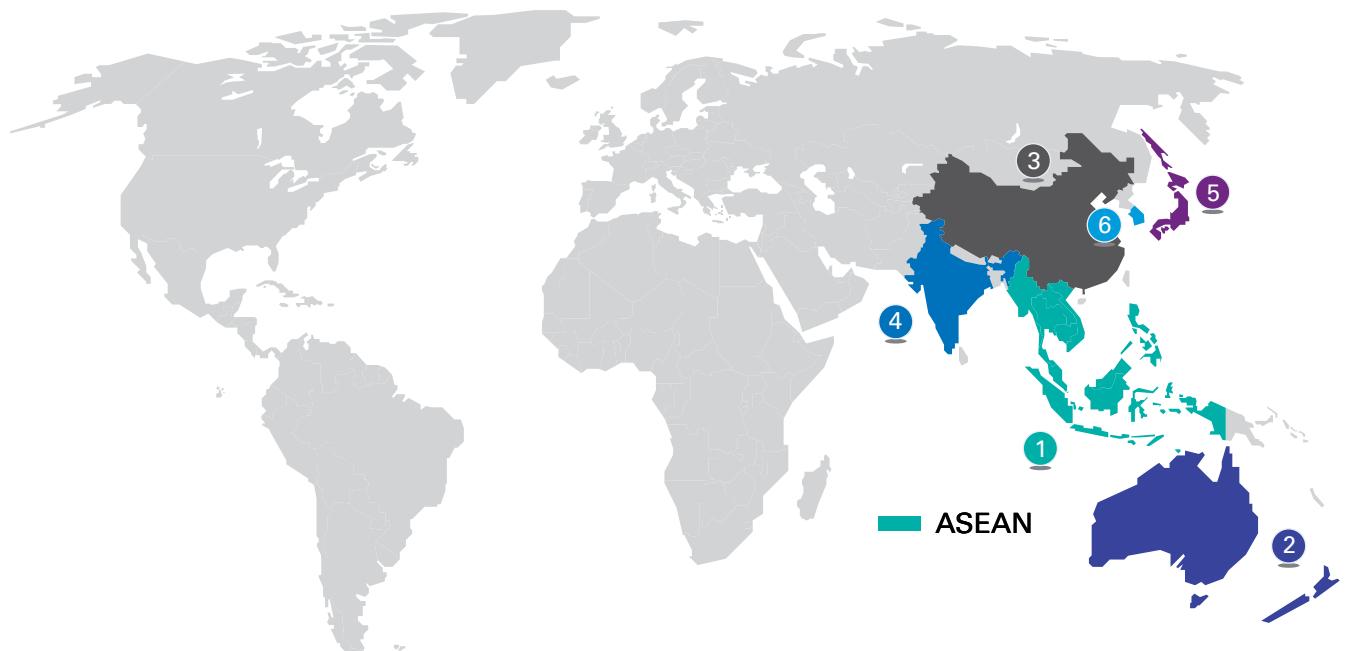


Indonesia-Pakistan Preferential Trade Agreement²¹

- Preferential tariff rates for more than 200 products
- 15% margin of preference over the standard tariff rate of Indonesian palm oil products

Regional FTAs²²

Agreements signed between Indonesia and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation



Concluded / signed FTAs

Completed negotiations

- Trade Preferential System of the Organization of the Islamic Conference. Indonesia signed the Framework Agreement and Protocol on the Preferential Tariff Scheme (PRETAS)
 - PRETAS mainly deals with reducing tariffs on products covered under the scheme as well as para-tariff and non-tariff barriers
- Indonesia-Chile Comprehensive Economic Partnership Agreement (IC CEPA)
- ASEAN-Hong Kong, China Free Trade Agreement (AHKC-FTA)



FTAs under negotiation

- India-Indonesia Comprehensive Economic Cooperation Arrangement
- Indonesia-Australia Comprehensive Economic Partnership Agreement
- Indonesia-Peru Free Trade Agreement
- Indonesia-European Free Trade Association Free Trade Agreement with Switzerland, Lichtenstein, Norway and Iceland
- Regional Comprehensive Economic Partnership (RCEP) with Australia, Cambodia, India, Japan, Laos, Myanmar, Philippines, Thailand, Brunei Darussalam, China, South Korea, Malaysia, New Zealand, Singapore and Vietnam
- [Republic of] Korea-Indonesia Free Trade Agreement
- Indonesia-Sri Lanka Free Trade Agreement

STRENGTHENING FOUNDATION FOR GROWTH

To manage the challenges following the end of the commodity boom and slowdown of the global economy, the Indonesian government expanded investment in public infrastructure across the archipelago, and improved accessibility to Eastern Indonesia to rebalance the fruits of economic growth. Under a stable political climate, these actions are likely to strengthen the foundation for growth in the medium term.

While the Jakarta-Bandung corridor and Surabaya remain the country's largest drivers of growth, economic activities in emerging cities like Medan, Palembang, Batam, Central Java, Balikpapan and Makassar will contribute to this growth.

Indonesia's rising middle class and large domestic consumption base will also continue to play an important role in the country's growth, with consumer related sectors such as food and beverage, information and communication, banking/finance, insurance and retailers, benefitting most.

In major cities, the swift adoption of new technologies by a highly adaptive middle class is likely to change the pattern of consumption, thereby forcing business owners to rethink their business models and operations. In the smaller cities and rural areas, an extensive and effective distribution channel will open doors to the growing consumption base. Institutional reform will continue to be an important government agenda. The effectiveness of the reforms cascading down to the local and regional governments will be central to sustainable economic growth and productivity in Indonesia.

Endnotes

¹ World Bank. Indonesia Overview. Retrieved from <http://www.worldbank.org/en/country/indonesia/overview>

² KPMG Investing in Indonesia 2015

³ Bankpedia. Retrieved from <http://www.bankpedia.org/index.php/en/114-english/m/23933-mint-the-new-emerging-economies-encyclopedia>

⁴ OECD. Indonesia - Economic forecast summary (November 2016). Retrieved from <https://www.oecd.org/eco/outlook/economic-forecast-summary-indonesia-oecd-economic-outlook-november-2016.pdf>

⁵ Investopedia. Breaking down 'MINTs (Mexico, Indonesia, Nigeria, Turkey)'. Retrieved from <https://www.investopedia.com/terms/m/mints-mexico-indonesia-nigeria-turkey.asp>

⁶ Global Construction Review. Vinci to invest \$500m in Indonesian motorsport complex; Netral English. How Big French Contributes Its Investment to Indonesia; PV Tech. Engie partnerships to invest US\$1.25 billion in Indonesian renewables, agreements in Singapore; Engie. Press Release 29 March 2017

⁷ Bloomberg. Indonesia Lures Middle East as Trump Worries Muslim Nations; Al Arabiya. King Salman's Asia visit: Saudi Arabia, Indonesia sign 11 agreements

⁸ Techcrunch. Tencent Leads \$1.2 Billion Investment in Indonesia's Rival to Uber. Retrieved from: <https://www.barrons.com/articles/tencent-leads-1-2-billion-investment-in-indonesias-rival-to-uber-1493944836>

⁹ Techcrunch: Alibaba leads \$1.1B investment in Indonesia-based e-commerce firm Tokopedia. Retrieved from: <https://techcrunch.com/2017/08/17/alibaba-tokopedia/>

¹⁰ Global Business Guide. Why Indonesia. Retrieved from http://www.gbgindonesia.com/en/main/why_indonesia/why_indonesia.php

¹¹ Asia Sentinel. Economic Outlook 2017: Indonesia; IMF. Indonesia: Resilient Economy Can Benefit from Stronger Reforms.

¹² KPMG Investing in Indonesia 2015; OECD. Indonesia - Economic forecast summary (November 2016); World Bank. Indonesia Economic Quarterly. March 2017

¹³ KPMG Investing in Indonesia 2015; IMF. Indonesia: Resilient Economy Can Benefit from Stronger Reforms.

¹⁴ Global Business Guide. Why Indonesia; ITRI. 2016 Report on Global Tin Resources & Reserves; World Atlas, The Top 10 Coal Producers Worldwide; World Coal Association, Coal Market and pricing; International Gas Union. 2016 World LNG Report

¹⁵ SEBGroup. Indonesia: A potential economic powerhouse. 2016; IMF. Indonesia: Resilient Economy Can Benefit from Stronger Reforms

¹⁶ IIGF. Guarantee Overview. Retrieved from <http://www.iigf.co.id/en/business/overview>

¹⁷ Indonesia Investment Coordinating Board. Investment Incentives; KPMG Indonesia. Investing in Indonesia 2015; KPMG Indonesia. Indonesia Tax Profile 2016

¹⁸ Indonesia Investment Coordinating Board. Investment Incentives. Retrieved from <http://www.bkpm.go.id/en/investment-procedures/investment-incentives>

¹⁹ Asia Regional Integration Centre. Free Trade Agreements; Ministry of Trade Directorate General for National Export Development. Indonesia in FTA; Global Business Guide. Indonesia in Free Trade Agreements

²⁰ Indonesia Investment. Indonesia-Japan Economic Partnership Agreement (IJEPA); Ministry of Foreign Affairs of Japan. Agreement between Japan and the Republic of Indonesia for an Economic Partnership

²¹ Tribune. Trade: Pakistan, Indonesia PTA comes into effect; Organization of Islamic Cooperation. Conventions

²² Asia Regional Integration Centre. Free Trade Agreements; Ministry of Trade Directorate General for National Export Development. Indonesia in FTA; Global Business Guide. Indonesia in Free Trade Agreements; Organization of Islamic Cooperation. Conventions; Ministry of Foreign Affairs Republic of Indonesia. Indonesia-Chile Signed a Comprehensive Trade Agreement; ASEAN.org. The Signing of The ASEAN-Hongkong, China Free Trade Agreement and ASEAN-Hongkong, China Investment Agreement; Jakarta Globe. Indonesia, Sri Lanka Agree to Start Free Trade Negotiations



Tohana Widjaja
Managing Partner
T: +62 (0) 21 5799 5143
E: Tohana.Widjaja@kpmg.co.id



Susanto
Partner, Head of Markets
T: +62 (0) 21 5799 5328
E: Susanto@kpmg.co.id



Kusumaningsih Angkawidjaja
Partner, Head of Audit and Assurance
T: +62 (0) 21 5799 5201
E: Kusumaningsih.Angkawidjaja@kpmg.co.id



Abraham Pierre
Partner, Head of Tax
T: +62 (0) 21 5799 5150
E: Abraham.Pierre@kpmg.co.id



Bob Yap
Partner, Head of Advisory
T: +62 (0) 21 574 0877
E: byap@kpmg.com.sg

KPMG HAS A PRESENCE IN EVERY ASEAN NATION

25
Offices

over 8,000
Staff

more than 300
Partners



BRUNEI
1 office



CAMBODIA
1 office



INDONESIA
1 office



LAOS
1 office



MALAYSIA
9 offices



MYANMAR
1 office



PHILIPPINES
5 offices



SINGAPORE
1 office



THAILAND
1 office



VIETNAM
4 offices

Audit

- Fundamental to a risk-based audit approach is understanding the way our clients run their businesses and drive performance.
- KPMG focuses on the areas which are critical to our clients in delivering their strategies and meeting goals.
- KPMG's extensive experience and proprietary tools have enabled us to provide seamless services to clients across industry sectors and geographical boundaries.

Tax

- Against a backdrop of increasing complexity in the business and tax landscapes, clients will need to weigh its tax options against many factors, such as tax ramifications against the financials, increased information sharing between tax authorities, evolving regulations, global competitions and new economies.
- Through two main service lines: tax consulting and tax planning and compliance, KPMG's tax practice consistently provides proactive advice and quality service. Our tax consulting service lines cover mergers & acquisitions & government incentives, global transfer pricing services, global indirect tax services, financial services tax and international tax. Our multi-national clients enjoy this single point of contact in Asia Pacific for all regional tax issues.
- In addition, our tax planning & compliance services include global mobility services, global immigration services network, global compliance management services, dispute resolution & controversy, tax management consulting and property tax / stamp duty advisory. With KPMG's vast network, clients' business commitments and tax needs will be best served by KPMG member firms in the region.

Advisory

- KPMG's Advisory team works with a range of clients, helping them meet challenges associated with growth, performance and governance.
- Our professionals can cover both operational and transactional activities.
- Our Advisory practice assembles skilled and experienced professionals in multi-disciplinary groups tailored to the needs of individual clients and their unique circumstances.
- In our clients' interests, we also draw on the capabilities and knowledge resources of KPMG's global network.
- We offer our clients a single point of contact to help streamline the relationship and enhance its productivity and usefulness to them.
- We understand and respect clients' needs and aspirations. Clients can draw from a range of management and risk consulting services covering a broad spectrum of business activity.

Contributors to the research, analysis, and development of this paper:

Managing Partners, Head of Markets and teams from KPMG member firms in ASEAN, Sreetama Ray, Chris Zaharatos

For further information about this guide and how
KPMG member firms can help your business,
please contact asean@kpmg.com.sg

kpmg.com/socialmedia



kpmg.com/app



© 2018 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.