

16 January 2006



Singapore Manufacturers' Federation

Country Report on Indonesia



1. GEOGRAPHY

- **Total area:** 1,919,440 km² (approx. 3,106 times! that of Singapore's)
- **Capital:** Jakarta

Provinces in Indonesia:

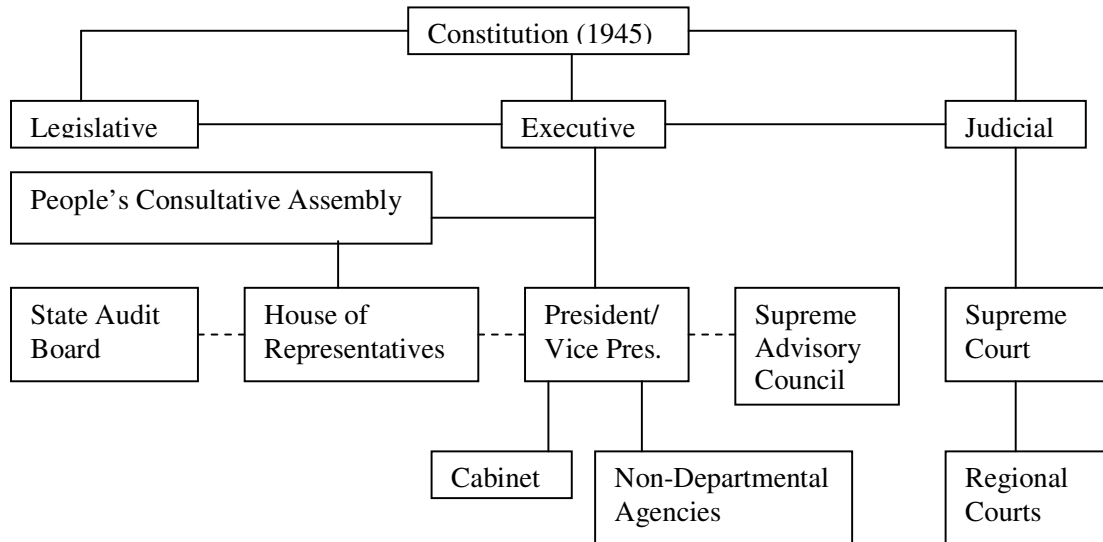
Bali	Central Sulawesi	Jambi	Papua (Irian Jaya)	West Irian Jaya
Bangka-Belitung	East Java	Lampung	Riau	West Java
Banten	East Kalimantan	Maluku	Riau Kepulauan	West Kalimantan
Bengkulu	East Nusa Tenggara	North Maluku	South E. Sulawesi	West Nusa Tenggara
Central Java	South Sumatra	North Sulawesi	South Kalimantan	West Sulawesi
Central Kalimantan	Gorontalo	North Sumatra	South Sulawesi	West Sumatra

2. POLITICAL SYSTEM

- Indonesia is a republic with a constitution that provides for limited separation of executive, legislative and judicial power
- The highest legislative body is the People's Consultative Assembly (MPR), which is elected for a 5-year term
- The president and vice-president were elected for a 5-year term for the first time in September 2004
- The president is accountable only to the MPR and is assisted by a cabinet which he appoints

- Last elections: 20 Sep 2004, next elections: September 2009

Structure of Indonesia's Political System



Source: Australian Broadcasting Corporation

The Indonesian Cabinet (selected major ministries only)

President: Susilo Bambang Yudhoyono		Vice President: Jusuf Kalla	
Coordinating Minister for Political, Legal & Security Affairs:		Adm (ret) Widodo A.S.	
Coordinating Minister for the Economy:		Boediono	
Coordinating Minister for Social Welfare:		Aburizal Bakrie	
Minister of Finance:	Mulyani Indrawati	Minister of Foreign Affairs:	Hassan Wirayuda
Minister of Industry:	Adung Nitimiharja	Minister of Energy & Natural Res:	Purnomo Yusgiantoro
Minister of Trade:	Mari E. Pangestu	Minister of Cooperatives & SMEs:	Soegiharto
Minister of Agriculture:	Anton Apriyantono	Minister of Maritime Aff & Fisheries:	Freddy Numberi
Minister of Forestry:	M.S. Ka'ban	Minister of Transportation:	Hatta Radjasa

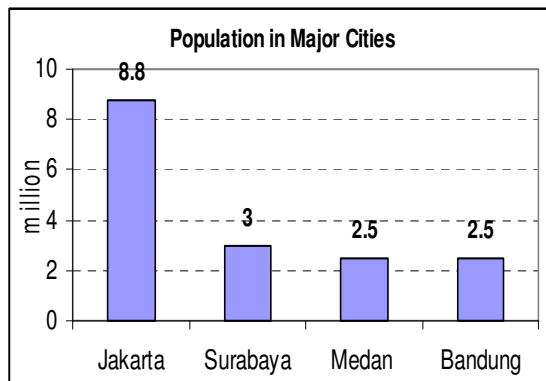
Source: IE Singapore website as at 12 Dec 2005 and The Coordinating Ministry for Economic Affairs, Indonesia

3. LEGAL SYSTEM

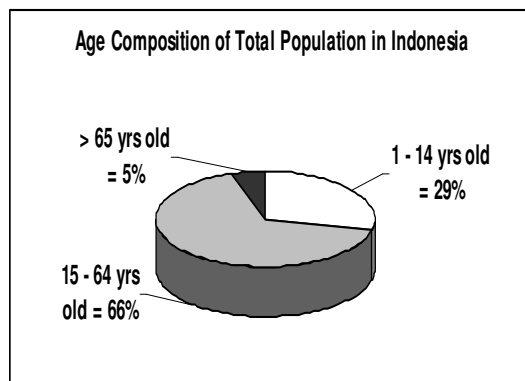
- Based on Roman-Dutch law, but substantially modified by indigenous concepts and by new criminal procedures and election codes
- The Supreme Court justices are appointed by the president and they assume administrative and financial responsibilities for the lower courts
- Indonesia has not accepted compulsory International Court of Justice jurisdiction

4. SOCIO-DEMOGRAPHY

- Indonesia is the world's fourth most populous country
- **Population:** 217.6 million, as of year 2004 (approx. 54 times! that of Singapore)
- **Population growth rate:** approx. +1.4% per year

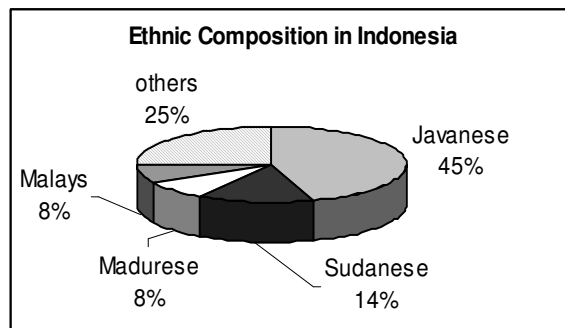


Source: US Dept of State

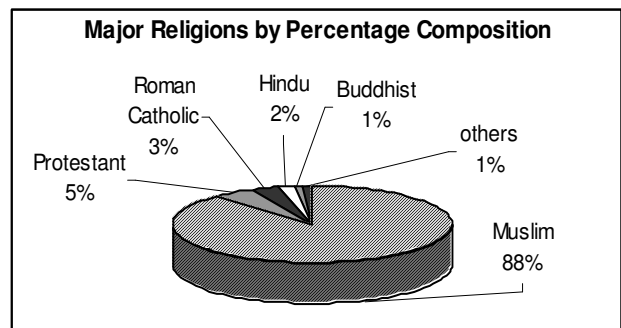


Source: The World Fact Book, CIA

- **Languages:** Bahasa Indonesia (official), English, Dutch and local dialects
- **Literacy:** age 15 and above who can read and write = 88% of total population



Source: The World Fact Book, CIA



Source: The World Fact Book, CIA

Telephone Usage & Penetration

	No. of Lines/ Subscribers	Penetration (% of pop.)
Fixed Line	10.4 mil	5%
Mobile	32 mil	15%

Source: Asia Times, Business Monitor Int'l

Internet Usage, Penetration & Growth

Internet Pop. (2000)	Internet Pop. (2005 esti)	Growth (2000-05)	Penetration (% of pop.)
2 mil	15.3 mil	665%	7%

Source: Internet World Statistics

5. ECONOMY

- The government has adopted a “*pro-business*”, “*pro-growth*,” “*pro-job creation*” and “*pro-poor*” economic strategy
- It targets an **average GDP growth of 6.6% from 2004 to 2009** and a **reduction in unemployment rate from 9.5% to 5.1% over the same period. In 2004, the manufacturing sector accounted for some 26% of GDP.**
- Due to its impact on job-creation, the government views private investment, especially foreign direct investment, as necessary to combat poverty
- The government will complete an investment legislation for submission to Parliament, which will radically change the way business is done in Indonesia (see table below)
- State monopoly on the downstream part of the oil and gas sector will be removed and liberalized to attract investors and to increase production

Features of Draft New Law on Investment

- The existing Foreign Investment Law of 1967 and the Domestic Investment Law of 1968 will be combined.
- A definitive list of sectors that are (i) open or (ii) open on certain conditions to private investors will be formulated. Almost all sectors will be open.
- Indonesia will apply Most Favored Nation (MFN) principle to investing nations.
- Free repatriation of foreign capital/returns, loans and salaries of expatriates is guaranteed.
- A sector may be closed to private investment on the basis of national interest, including security, public health and environmental concerns.
- A clear tax incentives framework will specify sectors eligible for tax incentives such as investment allowance, accelerated depreciation and carry-forward losses.
- The amended decentralization law will clarify the division of responsibilities between central and regional governments on investment policy and its implementation.
- Procedures and cost of setting up a business in Indonesia will be minimized; the number of days needed to get an approval will be reduced from 150 days to no more than 30 days.
- Corporate tax will be reduced from the present 30% to 27% and 25% in 2007 and 2010 respectively.
- There is no limitation on the validity of business licenses (as far as the project is on

going).

- Personal income tax will be reduced from 35% to 30% by 2010.
- Special tax incentives will be given to small enterprises.

Source: Investment Co-ordinating Board

Major Exports and Imports (year 2004):

	Major Exports from Indonesia	US\$ bil	% of total		Major Imports into Indonesia	US\$ bil	% of total
1	Vegetable fats & oils solid	4.2	8	1	Machinery & trans. equipm	12.2	6
2	Coal, pulverized & non-pulv.	2.7	5	2	Mineral fuels & lubricants	11.8	6
3	Nat'l rubber latex & gums	2.2	4	3	Chemicals	7.6	4
4	Veneers, plywood, etc	2.0	3	4	Manufactured goods	6.2	3
5	Copper ores & concentrate	1.8	3	5	Food & live animals	3.8	2
6	Furniture & parts	1.7	3	6	Crude materials, inedibles	3.5	2

Source: Central Board of Statistics (Indonesia) and CEIC

Note: Petroleum and natural gas exports in 2004 totalled US\$ 15.6 billion

Major Trading Partners (year 2004):

	Exports to	Exports (US\$ bil)	% of Total Exports		Imports from	Imports (US\$ bil)	% of Total Imports
1	Japan	16.9	22	1	Japan	10.0	19
2	US	10.5	14	2	China	5.7	11
3	China	5.9	8	3	Singapore	4.8	9
4	Singapore	5.7	7	4	Thailand	3.5	7
5	S. Korea	4.6	6	5	Malaysia	3.4	7
6	Malaysia	3.8	5	6	US	2.9	6

Source: Asian Development Bank

Major Trading Goods between Singapore and Indonesia (year 2004):

	Indonesian's imports into Singapore	S\$ bil	% of tot imports		Singapore's exports to Indonesia	S\$ bil	% of tot exports
1	Machinery & equipment	8.7	54	1	Machinery & equipment	6.2	45
2	Mineral fuels	2.2	13	2	Mineral fuels	3.6	26
3	Manufactured goods	1.6	10	3	Chemical & chemical prod	2.2	16
4	Miscellaneous manufactures	1.5	9	4	Manufactured goods	0.6	5
5	Food	0.7	4	5	Miscell. manufactures	0.6	5
6	Chemicals & chemical prodts	0.5	3	6	Crude materials	0.2	1

Source: IE Singapore

6. SPECIAL TRADE AGREEMENT WITH SINGAPORE

- Special trade arrangements between Singapore and Indonesia are covered under the agreement on the Common Effective Preferential Tariff (or CEPT) Scheme for the Asean Free Trade Area (or AFTA)
- The CEPT requires that tariff rates levied on a wide range of products traded within AFTA be reduced to no more than 5%
- Currently more than 99% of the products in the CEPT Inclusion List for the Asean-6 is subject to only between 0 to 5% tariff
- Whilst the CEPT scheme is scheduled to be fully realized in 2008, the target period for an Asean free trade area is continuously moved forward

Percentage of Levy based on CEPT Package Agreement

	0 to 5% levy	> 5% levy
Asean-6 (ie. Singapore, Indonesia, Thailand, Philippines, Brunei and Malaysia)	99.45%	0.55%
Total Asean (ie. Asean-6 plus Vietnam, Cambodia, Laos and Myanmar)	90.17%	9.77%

Source: Association of Southeast Asian Nations

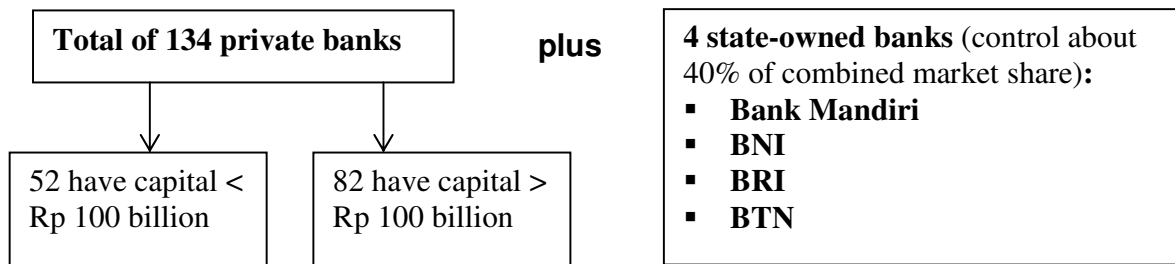
- The free trade area covers all manufactured and agricultural products except those in the General Exception List (representing 734 items or about 1% of total tariff lines) which are permanently excluded from the free trade area due to national security, protection of human and animal life and health and artistic, historical or archaeological value

7. INDONESIAN BANKING SYSTEM

- Major changes are expected in the next few years in the banking system
- Bank Indonesia (BI), the central bank, encouraged banks to consolidate and improve banking supervision and governance
- Small banks (with capital < Rp 100 billion or about S\$ 19 million) are asked to either increase their capital or merge with bigger “anchor” banks before 2009
- BI issued a set of criteria for anchor banks which include:
 - A capital of at least Rp 100 billion for the last 3 years
 - A capital adequacy ratio (CAR) of at least 12%
 - A minimum return on assets of 1.5%
 - A minimum loan to deposit ratio of 50%

- BI has no plans yet to privatize the four state-owned banks

Indonesian Domestic Banking System:



Source: US Department of State

8. PRO-INVESTMENT MEASURES/ POLICIES

A. Import Duties

- Investment projects approved by the Investment Coordinating Board or the Office of Investment will be granted a final tariff of only 5%
- Where import duties, listed in the Indonesian Customs Tariff Book (BTBMI), are 5% or lower, the effective tariffs shall be those as listed
- The preceding relief applies to:
 - capital goods namely machinery, equipments, spare parts and auxiliary equipments for an import period of 2 years, starting from the date of stipulation of decisions on import duty relief
 - raw materials which are used as materials or components to produce finished goods for the purpose of two years full production (accumulated production time)

B. Export Manufacturing

- Exemption from VAT on materials purchased domestically and use in the manufacture of exported products
- No restrictions on import of raw materials regardless of availability of comparable domestic sources if these are used for export manufacturing

C. Taxation

- Individual and corporate tax rates are progressive

- The government provides a loss carried forward facility for a period of 5 years

Individual Income Tax Rates:

Taxable Annual Income	Tax Rate
= < Rp 25 million	5%
> Rp 25 to 50 million	10%
> Rp 50 to 100 million	15%
> Rp 100 to 200 million	25%
> Rp 200 million	35%

Source: Investment Coordinating Board

Corporate Tax Rates:

Taxable Annual Income	Tax Rate
= < Rp 50 million	10%
> Rp 50 to 100 million	15%
> Rp100 million	30%

Source: Investment Coordinating Board

- **Value added tax:** A 10% VAT applies to imports, manufactured goods and most services
- **Withholding tax:** Payment of dividends, interest, royalties and technical and management fees for services performed in Indonesia to Indonesian and non-Indonesian residents are subject to withholding tax

Withholding Tax Rates:

- Payments to Indonesian residents (excl. technical & management services) = 15%
- Payments to Indonesian residents for technical & management services = 6%
- Payments to non-Indonesian residents = 20%

- Withholding tax rates applicable to Singapore residents may be reduced, based on provisions of the prevailing tax treaty
- **Double taxation agreements:** Indonesia has signed agreements with 50 countries including Singapore to avoid incidental double taxation on incomes such as profits, dividends, interest, fees and royalties
- **Tax allowances (in selected sectors):** The government provides an investment tax allowance through the reduction in taxable income by as much as 30% of the realized investment spread over 6 years
- A loss carried forward facility for a maximum of 10 years
- 10% income tax on dividends or less, depending on the relevant tax treaty
- Accelerated depreciation and amortization

9. INDUSTRIAL SECTORS RECEIVING HIGH PRIORITY IN 2006

In 2006, the Indonesian government will focus on developing ***labour intensive and export oriented industries*** to lower the unemployment rate. Industries qualifying as labour intensive and export oriented include: textiles and garments, electronics, footwear, agribusiness, agro-industry and food and beverage. Co-operation with the private sector will be intensified to develop these industries.

The 4 broad areas of focus in the ***secondary and tertiary sector*** are:

- **Agro Based Industry** – palm oil, fisheries, wood based products, fruits and rubber based products. ***The emphasis on this sector is to manufacture high value-added products while gradually moving away from exporting raw materials.***
- **Basic manufacturing industry** – textiles and textile products, footwear, metal, capital goods, components, consumer electronics and petrochemical industries.
- **Information and Communication Technology (ICT) Industry** – this includes necessary equipments. ***The focus is on software engineering and ICT devices.***
- **Transportation Industry** – Automotives, maritime and aeronautical industries. ***The focus is on increasing local content and enhancing design and engineering capabilities in these sectors.***

Apart from the above, the tertiary sector also welcomes investment in:

- Electricity
- Gas and Water
- Construction
- Trade and Reparation
- Hotels and Restaurants
- Transportation
- Communication and Warehousing
- Real Estate
- Industrial Estates and offices

10. STARTING A BUSINESS/ A COMPANY IN INDONESIA

- You could appoint an Agent or Distributor or set up a Representative Office
- Most foreign investors at the early stage of entering the Indonesian market choose to set up an Agency Agreement or Representative Office
- As their business starts to grow, they will next apply for a Foreign Direct Investment (FDI) status
- This method of starting a business is commonly referred to as Penanaman Modal Asing (or PMA)
- Representative Offices are set up mainly for marketing, market research or as buying and selling agents
- Representative offices cannot conduct direct sales nor issue Bills of Lading
- Permission from the Ministry of Trade and Industry must be sought by submitting three letters: i) Letter of Intent, ii) Letter of Appointment (of Chief Representative) and iii) Letter of Statement (to abide by relevant regulations)
- Subject to approval by the Ministry, a Letter of Notification will be issued by the Indonesian Embassy and where successful, a 2-year license will be granted

KEY ECONOMIC INDICATORS

Appendix A

	2000	2001	2002	2003	2004	2005f	2006f
Real GDP: Rp billion YOY% change	398,017 5	411,743 3	426,943 4	444,454 4	466,677 5	5.3 to 5.6	5 to 5.7
GDP per capita (US\$)	731	688	820	973			
GDP Composition by Sectors (%): Industry Services Agriculture	46 39 15	47 38 15	45 39 16	44 40 16	44 41 15		
Total Trade: US\$ billion YOY % change	96 32	87 -9	88 1	94 6	118 26		
Total Exports: US\$ billion YOY% change	62 28	56 -9	57 2	61 7	72 17	86 19	15
Total Imports: US\$ billion YOY% change	34 40	31 -8	31 1	33 4	47 43		
Exports to Singapore: US\$ billion YOY% change	7 33	5 -18	5 0	5 1	6 6		
Imports from Singapore: US\$ billion YOY% change	4 50	3 -17	4 30	4 1	5 15		
FDI Project Approvals from Singapore (US\$ mil)	614	1,143	3,329	692	132 (Jan-Jun)		
Inflation Rate (%)	9.3	12.5	10	5.1	6.1	15 to 17	8 to 9
SGD/IDR exchange rate (average of period)	4,885	5,727	5,200	4,923	5,289		
Labour Force in Manufacturing (million)	11.6	12.1	12.1	11.5			
Unemployment Rate (%)	6.1	8.1	9.1	9.9			
Interest Rate 3-month time deposit (average of period)	12.5	15.5	15.5	10.8	9.3		

Source: Association of Southeast Asian Nations, Asian Development Bank, Central Board of Statistics (Indonesia), Investment Coordinating Board (Indonesia), Institute of Southeast Asian Studies and the Coordinating Ministry for Economic Affairs (Indonesia)

Singapore Companies in Indonesia (Selected Major Cities)
Appendix B

	Company Name in Singapore	Company Name in Indonesia	Industry
JAKARTA:			
1	Acumen Engineering Pte Ltd	Acumen Engineering Pte Ltd – Indonesia Rep Office	Trading
2	Agritrade International Pte Ltd	PT Cisadane Raya Chemicals (Oleo Chemical Inds)	Trading
3	Asian Tigers K.C. Dat (K C Dat (S) Pte Ltd)	Lane Moving & storage	Freight Forwarding
4	Asiatravel.Com Holdings Pte Ltd	PT Asia Travelindo Nusantara	Travel/Tourism
5	Autoacc Trading Pte Ltd	PT Autoban Lestari	Auto Parts & Supplies-Wholesalers
6	Autron Corporation Ltd	Niche Tech Pte Ltd	Electrical & Electronics Equipment & Machinery
7	Benteler Far East Manufacturing Pte Ltd	PT Besi Pipa Indosenter	Building/Industrial Materials –Metal (Ferrous & Non- Ferrous)
8	Cargo Community Network Pte Ltd	Cargo Community Network Pte Ltd (Rep Office)	Transportation/Freight
9	Doou Yee Enterprises (S)) Pte Ltd	Dou Yee Jakarta	Electrical & Electronics Equipment & Machinery, Industrial Materials-Ceramic Products
10	Flairis Technology Corporation Ltd	PT Patco Elektronik Technologi	Business Services – Outsourcing
11	Fe Global Electronics Pte Ltd	FE Global Electronics Pte Ltd	Equipment, Machinery, Fixture, Parts & Accessories, Electrical & Electronics
12	Flotech Controls Pte Ltd	PT Flotech Controls Indonesia	Equipment, Machinery & Accessories – Automation/Material Handling
13	Global Airfreight International Pte Ltd	PT Global Freight Consolidatama	Logistics/Transportation Services/Freight Forwarding/Packaging
14	Jason Electronics Pte Ltd	PT Jasonindo Jayatama	Telecommunications, other solutions
15	Jurong Engineering Ltd	PT Truba Jurong Engineering	Civil Engineering Services
16	Kaybee Exim Pte Ltd	PT Kaybee Jakarta	Electronic Equipment & Supplies-Wholesalers and Manufacturers
17	Keppel Land Ltd	PT Keppel Land	Real Estate
18	Kingsmen International Pte Ltd	PT Kingsmen Trisekawan Manunggaliyaya	Exhibitions/Events
19	King’s Safety Wear Pte Ltd	PT Asiakarya Dutadunia	Shoes- Wholesale & Manufacturers
20	L&M Group Investments Ltd	PT L & M Systems Indonesia	Construction & Contracting Activity
21	MEC International Pte Ltd	PT MEC Indonesia	Mineral, Chemical or Allied Industry Products, Building Materials
22	Megachem Pte Ltd	PT Mega Kemiraya	Trading
23	Melandas Casa Mobili Pte Ltd	PT HDH International	Pulp, Wood, Furniture & Carpentry
24	Network Services Pte Ltd	PT Elsyndo Kreasi	Consultancy
25	Neucor Holdings Pte Ltd	PT Dos Ni Neucor	Various

26	NDT Instruments Pte Ltd	NDT instruments Pte Ltd (Representative Office)	Consultancy
27	Olam International Ltd	PT Olam Indonesia	Logistics/Transportation/ Packaging
28	Pan Abrasives (Pte) Ltd	Pt Pan Abrasiv Semesta	Production Equipment, Machinery, Parts & Accessories
29	Pacific Garment Manufacturing Pte Ltd	PT Benoli Inti Karya	Garments & Garment Accessories
30	Pacific Rim Plantation Services (Pte) Ltd	PT Pacrim Nusantara	Commodity Traders
31	PCR consulting Pte Ltd	PT PCR Nusantara	Engineering (Mechanical & Electrical) Consultancy
32	Pico Art International Pte Ltd	Pico Internusa Pte Ltd	Exhibitions/Events
33	Sembcorp Engineers and Constructors Pte Ltd	PT Sempec Indonesia	Construction, Contracting, Building Management
34	Singapore Power International Pte Ltd	Dian Swastatika Sentosa, PT Makassar Power	Finance
35	Summit CD Manufacture Pte Ltd	PT Suara Sebering Surya	Electrical & Electronics Equipment, Machinery, Parts & Accessories,
36	The Commercial & Industrial Security Corp	PT CISCO MAS Sekurititama	IT Services
37	Teledata (Singapore) Limited	PT Teledata Indonesia	Telecommunications, Network Solutions
38	UOB Group	PT Bank UOB Indonesia, PT Bank UOB Indonesia, UOB Jakarta Representative Office	Finance
39	Winston Engineering Corporation Pte Ltd	Winston Engineering Corporation Pte Ltd (Indonesia)	Electrical & Electronics Equipment, Machinery & Accessories
SURABAYA:			
1	Apex –Pal International Pte Ltd	Masipion Group	Caterers
2	Rumput Mas Singapore Pte Ltd	Rumput Mas	Trading
3	UOB Group	PT Bank UOB Indonesia	Financial Services
BATAM:			
1	Dou Yee Enterprises (S) Pte Ltd	Dou Yee Batam	Plastic and Rubber Products, Industrial Materials-Ceramics
2	Excel Machine Tools Ltd	PT E-Tech Manufacturing Indonesia	Automation/Material Handling Equipment, Machinery & Parts
3	Flairis Technology Corporation Ltd	PT Flairis Technology Indonesia	Business Services - Outsourcing
4	Getronics (S) Pte Ltd	PT Getronics Batam	Wire Harnesses-Electrical
5	PCI Ltd	PT. Prima Circuitama Indonesia	Electrical & Electronics Equipment, Machinery, Parts & Accessories,
6	Racer Technology Pte Ltd	PT Racer Technology Batam	Precision Engineering Services
7	Team-Metal (S) Pte Ltd	PT. Team-Metal Indonesia	Metal Machining
8	United Overseas Bank Group	PT Bank UOB Indonesia	Financial Services
9	Yeakin Plastic Industry Pte Ltd	PT Yeakin Plastic Industry	Moulds

Source: www.singaporeabroad.org.sg

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