

Indonesia Matters

Size, growth and opportunity



 **BUSINESS
IS
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BRITAIN & NORTHERN IRELAND



Why Indonesia Matters

Size: Over 250 million people

Indonesia is the 4th most populous country in the world¹ with more than 17,000 islands and over 600 different local dialects. The population is expected to exceed 270 million by 2025 and 290 million by 2045. Indonesia has a young workforce with 45% of the population below 28 years². The number of middle-class and affluent consumers in Indonesia is 74 million people, larger than the population of Australia, Malaysia and Singapore combined, and is set to increase to 141 million people by 2020³.

Strengths of the Indonesian market include:

- population increase by 4.5 million a year
- high proportion of working age people
- abundance of natural resources
- political stability following transition to democracy in 1998

Growth: 4th largest economy by 2050⁴

Indonesia's real GDP growth is expected to reach 5.1 percent in 2017, climbing to 5.3 percent in 2018⁵. Indonesia's macroeconomic fundamentals are sound and have been strengthening, as the Government continues to implement critical structural reforms. Investment growth rose to the highest levels since the last quarter of 2015, driven largely by investments in buildings and structures. UN Conference on Trade and Development agency places Indonesia on the fourth rank as the prospective country of investment destination from 2017-2019, up from ninth position in 2016.

Currently the 16th largest economy in the world (by GDP), Indonesia is projected to be the fourth largest economy in the world by 2050 (by PPP)⁴.

Opportunity: UK firms optimistic and winning business

Reforms aimed at improving the business environment resulted in the country's ranking in the World Bank's Ease of Doing Business Index 2018 jumped 19 places from 91 in 2017 to 72. Indonesia hopes to reach the 40th position in 2018. Global credit rating agency Standard & Poor's assigned investment grade status to Indonesia's sovereign rating, bringing it in line with the other two main rating agencies Fitch Ratings and Moody's Investors Service. The business outlook remains positive and businesses are targeting Surabaya, Bandung and Medan for their business expansion⁶. In the past 12 months UK companies have won contracts of over £1 billion across a wide range of sectors.

Doing business in Indonesia takes patience and perseverance. Companies should be prepared to invest time and resources in regular visits over a period of months, sometimes years, before seeing returns.

Benefits for UK businesses exporting to Indonesia include:

- growing middle class
- strong domestic consumption
- largest economy in South East Asia



Source:

1 World Population Prospects, the 2017 Revision. United Nations Department of Economic and Social Affairs

2 Oxford Business Group. 2017. Indonesia

3 Boston Consulting Group Perspective. 2013.

4 PricewaterhouseCoopers. 2017. The Long View: How Will the Global Economy Order Change by 2050

5 World Bank's October 2017 Indonesia Economic Quarterly

6 Joint European Chambers' Business Confidence Index. 2016.

Indonesia & UK

Both democratic states, multi-faith societies and island nations; Indonesia and the UK have shared values and interests:

History

Stamford Raffles, a British statesman, governed Java as a result of Napoleonic wars. Raffles did a significant amount of work on the restoration of Prambanan and Borobudur. Alfred Russel Wallace was another British leader who did important work on the division of flora and fauna in Indonesia, known until today as the Wallace line, a distinction that separates flora and fauna from Asia and Australasia.

Goods and services

UK companies are already flourishing in Indonesia, some with a presence that stretches back over 100 years. Major UK companies operating in Indonesia include BP, Jardines Matheson, Unilever, Shell, Standard Chartered Bank, HSBC, Prudential, Rolls Royce and GlaxoSmithKline. There is also a strong and growing UK retail presence including Marks & Spencer, Burberry, Alexander McQueen, Karen Millen, Coast, New Look, Super Dry, Top Shop, Ted Baker, Mothercare and Early Learning Centre.

Science and innovation

The UK and Indonesia have a history of science and innovation partnerships with more than 1,200 joint publications since the start of the millennium. Indonesia is a partner country for the UK's Newton Fund - the UK's £375m official development assistance fund that aims to promote research and innovation cooperation.



Education

In the last five years, there have been more than 50 agreements in the field of education between the two countries⁷. The UK has a well established higher education system and reliable technology sector, while Indonesia is currently focusing on the importance of education and technology development. Academia, sports and Arts & culture are seen as the UK's strongest qualities, and over 2 in 5 see the UK as an attractive place to study⁸. There are 3000 students from Indonesia studying in UK currently and these numbers are growing at around 20% annually.

UK culture

There is a huge demand for UK culture and creativity with music ranging from the Rolling Stones to Coldplay and Adele to Ed Sheeran, James Bond, Shaun the Sheep. Demand for Indonesian creativity is growing worldwide with designers showcasing their collections in London and creating costumes for blockbuster films.

Diplomatic relations

UK-Indonesia diplomatic relations were established in 1949, following Indonesia's independence in 1945. Relations are friendly and strong; the British Prime Minister visited Indonesia in 2012 and 2015 and President Joko (Jokowi) Widodo made a visit to London in April 2016. There have been numerous Ministerial visits from both countries ever since. The Prime Minister's Trade Envoy to Indonesia, Mr. Richard Graham MP, has visited Indonesia more than 11 times since his appointment in 2012, and continues to actively promote trade links between the two countries.

Source:

7 <https://atdikbudlondon.com/general/indonesia-uk-education-provision/mou-education-indonesia-uk/>

8 British Council As Others See Us 2016 Indonesia Country Report



As the UK is in Europe and beyond, Indonesia is a regional and global player:

G-20 member

Indonesia is the only Southeast Asian member of the G-20. Indonesia's active role in the G-20 becomes salient since the G-20 serves as foreign political instrument for Indonesia towards becoming a developed country in 2025.

ASEAN headquarters

Headquarters
Indonesia is at the heart of the ASEAN: hosting its headquarters; leading the EU-ASEAN trade negotiations; and ASEAN-China negotiations on the South China Sea helping to ensure the future stability of the major trading route.

UN seat

Indonesia has retained its seat at the UN Human Rights Council (UNHRC) and is running for a non-permanent seat at the UN Security Council for 2019, adding to its major contribution toward UN global Peacekeeping Operations.

APEC

Indonesia has long been a strong supporter of the Asia-Pacific Economic Cooperation (APEC) forum. Indonesia pledged that it would keep its market open for trade and investment and fight against protectionism as part of its commitment to the 2016 Leaders' Declaration of the Asia-Pacific Economic Cooperation (APEC).

WTO member

Indonesia has a strategic and special position within the WTO, as the country is considered a bridge between small and large member states.



Sector focus



Airports

Home to 296 airports⁹

With domestic passengers of 90 million and international passengers of 11 million, Indonesia's airports are set to see strong growth over the next five years. The Indonesia's Government plans to construct 15 new airports by 2019, nine new air cargo facilities, redevelop 100 existing airports, and upgrade 26. A fourth terminal at Jakarta's Soekarno-Hatta International Airport is also planned and expected to be operational by 2021. The Government's ambitious infrastructure plans and ASEAN Open Sky policy will offer opportunities in modernising equipment (facilities for communication, navigation surveillance and automation), maintaining devices, upgrading systems in more than 296 airports and training of human resources.



Aviation

Sixth largest market for air travel by 2034

Indonesia currently ranks 10th worldwide in terms of air passenger numbers and is expected to have 270 million passengers¹⁰, representing a threefold increase on today's traffic. This growth will need to be supported by the aviation infrastructure, both on the ground and in the air. With this tremendous growth in traffic, Indonesia will need to build itself into a world-class hub, managing scarce capacity to global standards and modernizing air traffic management. There will be opportunities for overseas firms as Indonesia seeks to upgrade its aviation infrastructure to meet this growth and improve its safety standards. Furthermore, with more aircraft in operation, there will be a greater need for aircraft parts and maintenance services. The potential market for Maintenance, Repair and Overhaul is predicted to reach \$65.3 million in 2020¹¹. Foreign investors may partner with local firms to establish aircraft maintenance facilities.



Defence and Security

Second largest defence market in South East Asia¹²

Indonesia is conducting a major overhaul of its military capabilities in order to reach its Minimum Essential Force by 2024. Its annual defence budget is currently US\$8.17 billion¹³. The ambition is to grow it from 0.8% to 1.5% of GDP by 2020-2021. Indonesia will have the fifth fastest-growing defence budget in the world between 2016 and 2025, growing at a compound annual rate of 4.7% and spending more than \$20 billion on procurement over the period¹⁴. Indonesia is interested in cooperation with the UK on Counter Terrorism, Counter Narcotics, Humanitarian Assistance and Disaster Relief, but particularly on industrial defence cooperation. There are opportunities to provide a range of military equipment, communications systems, spare parts, and support services. Monitoring and protection of sea-borne traffic for both national security and fisheries enforcement presents new opportunities. The Indonesian Police has a particular focus on cyber security and counter-terrorism.



Source:

9 APEC Policy Support Unit. 2017. Indonesia: Structural Reform in Air Transport Service

10 International Air Transport Association (IATA)

11 Indonesian Aircraft Maintenance Service Association (IAMSA)

12 McKinsey & Company. 2014. Southeast Asia: The next growth opportunity in defense

13 <http://www.janes.com/article/72232/revised-indonesian-budget-brings-modest-increase>

14 IHS Markit Analysis <http://news.ihsmarkit.com/press-release/aerospace-defense-security/20-billion-defence-budget-boom-indonesia-ihs-markit-says>



Education

Fourth largest education system in the world

With over 60 million students and almost 4 million teachers in 340,000 educational institutions, Indonesia is the third largest education system in the Asian region and the fourth largest in the world. The Indonesian government has allocated £23.4 billion (20% of the state budget) for education in 2017 and decentralised to local government in over 34 provinces nationwide¹⁵. The Indonesia's Government plans to increase 130 million skilled workers by 2025 and to be in the top 4 ASEAN countries by 2030 - 2045. This opens the gateway for UK education providers to establish a presence and penetrate the market with focus to develop English Language Training (ELT), Teacher Training, Continuing Professional Development and Vocational Training in various sectors such as engineering, maritime, aerospace, railway, information technology and more.



Marine

World's largest archipelago country with more than 17,000 islands

Indonesia has more than 240 active shipyards supporting the development of the maritime sector and 1700 ports. Of these, 111 are commercial ports while only 11 are container ports. Twenty four new ports are to be developed by 2019¹⁶. Indonesia plans to increase the national shipping industry ability from 85,000 DWT (2015) to 300,000 DWT (world class industry) by 2025¹⁷. As the government is aiming to improve infrastructure, maritime connectivity development and maritime power, there are opportunities for development of roads, seaport construction and revitalisation, shipbuilding such as tankers, freighters, patrol vessels, interceptors, warships and submarines.



Oil and gas

10th largest gas producer in the world

Indonesia has proven reserves of 102 Trillion Cubic Feet (TCF) in 2016. On a reserve basis, Indonesia ranks 15th in the world and the third in the Asia-Pacific region (following Australia and China)¹⁸. Deep water exploration and production in Indonesia is still ongoing to cope with the increasing domestic demand. There will be significant opportunities for drilling and completion, equipment, pipelines and control lines. Other opportunities exist in Enhanced Oil Recovery technology to extend oil production, supply of subsea equipment and services, Liquefied Natural Gas receiving terminals and regas facilities, education and training, coalbed methane and potentially shale gas.



Source:

15 Kementerian Keuangan Republik Indonesia - Perekonomian Indonesia dan APBN 2017 <https://www.kemenkeu.go.id/apbn2017>

16 The Investment Coordinating Board of the Republic of Indonesia

17 Ministry of Industry

18 PWC Oil and Gas in Indonesia-Investment and Taxation Guide. May 2017



Rail

£14 billion of investment planned for rail infrastructure projects

Almost 5,000 kilometres of operational track is in a state of disrepair or needs to be upgraded to accommodate demand, while vast landmasses outside of Java have no rail services at all. As part of the country's National Medium Term Plan 2015-2019, it has targeted extensive investment in new tracks across Java, Sumatra, Sulawesi and Kalimantan¹⁹. The Government has set a target of adding 3,258 km to the existing railway network. £5.7 billion allocated for Urban Transport is aimed at constructing railway in six metropolitan cities and 17 large cities across Indonesia. There are business opportunities in planning and development (master planning, environmental consultancy, financial and legal planning), architectural and engineering design services, project and commercial management, rail technologies including product supply, rolling stock components, operations and maintenance.



Smart Cities

100 smart cities planned by 2019

The government initiated 100 Smart City project, starting with 25 cities and regencies selected to be in this programme.

At present, Indonesia has 10 pilot smart cities, including Jakarta, Makassar, Surabaya, Bandung, Medan, Palembang, Yogyakarta, Semarang, Surakarta, and Denpasar. Jakarta and Makassar, for example, adopt smart cards to distribute social assistance and provide integrated services. There are opportunities in the development and improvement of existing and new urban townships, infrastructures and buildings, research and development projects and living labs (research and piloting of innovative and inclusive urban development approaches, innovative technologies and the use of open data and information and communications technology.



Sports

International stadiums planned in five cities

Indonesia has been selected to host several International sporting events such as Asian Games 2018 and Asian Paralympic Games 2018. The government aims to revitalise stadiums in Jakarta, Balikpapan, Makassar, Palembang, Semarang and Yogyakarta and plans to build comprehensive sports facilities such as motorsports circuit and horse racing²⁰. There are opportunities for UK firms to help Indonesia create a national sport legacy (both through physical and programme development) and renovate commercial areas. With 18 football clubs competing in the highest professional level competition called League One, opportunities exist in event promotion, coaching, talent development as well as training and organising footballing skills.



Waste

Seven major cities to accelerate waste to energy and waste management projects

Indonesia's rapid economic growth and improvements in living standards are generating increasing levels of municipal solid waste. Indonesia produces the equivalent to 64 million tonnes of waste per year²¹. Currently, 69% of this is sent to 200 final disposal sites, and sites with sanitary landfill technologies make up only 10% of the total number of sites. There are opportunities for waste handling and processing, basic conceptual design and engineering, operation and maintenance, incinerators/thermal converters, boilers, steam turbines, generators, gas engines, segregators, dryers, conveyors and project financing. Other opportunity exist for off-grid waste to energy in agricultural.

Source:

19 Global Business Guide. The Missing Link in Indonesian Railways. 2014

20 Indosport <http://www.indosport.com/sepakbola/20170114/>

kempenora-apresiasi-gencarnya-pembangunan-stadion-bertaraf-internasional

21 Pikiran Rakyat. <http://www.pikiran-rakyat.com/jawa-barat/2016/08/10/sampah-penduduk-indonesia-175000-tonhari-377143>



Country Snapshot: Indonesia

President:

Joko "Jokowi" Widodo

Next Election: 2019

Key bilateral relationships:

China, Japan, USA, Australia, Germany, UK

Major trading partners:

1. ASEAN
2. China
3. Japan
4. South Korea
5. United States

Major industries:

1. Automobiles
2. Electronics
3. Footwear
4. Textile Products
5. Paper Products
6. Furniture

Currency:

Indonesian Rupiah

GDP:

932.5 billion (USD; 2016)

GDP per Capita:

3,603 (USD; 2016)

Inflation: 3.3% (Oct 2016)

Imports: 143 billion USD (2015 Goods); ASEAN (27%); China (20%); Japan (8%); EU (8%); South Korea (6%)

Exports: 150 billion USD (2015 Goods); ASEAN (22%); Japan (12%); India (11%); EU (9%); USA (9%)

Trade agreements and intellectual property

- Under ASEAN Free Trade Agreement (FTA), Indonesia benefits from duty free movement of goods and services within the 10 ASEAN countries, subject to country of origin restrictions.
- Indonesia is also negotiating FTAs with Australia and the European Free Trade Association (EFTA), both of which are slated for completion in 2017. They also launched negotiations with the EU on a Comprehensive Economic Partnership Agreement (CEPA) in July 2016, and are targeting an ambitious end-2018 conclusion.
- Indonesia has commenced negotiations on the EU/Indonesia Comprehensive Economic Partnership Agreement (CEPA) in July 2016 after progress had been stalled for some years. The first round of negotiations took place in Brussels in September 2016 and the second round took place in January 2017 in Bali. The Government has set a (ambitious) two year timetable of two years for concluding the CEPA. While this is probably unachievable, it gives a useful sense of urgency to the negotiations.
- Indonesia is a World Trade Organization (WTO) member and has comprehensive intellectual property protection regulation. Businesses should register their intellectual property, a process which can take 2 to 3 years. The Directorate General of Intellectual Property Rights of the Ministry of Law and Human Rights is responsible for administering IPR in Indonesia.

Indonesia's priorities

- To develop infrastructure to improve connectivity between Indonesia's many islands
- Broadening the tax base; Indonesia's tax ratio (11% of GDP) is lower than other major ASEAN countries.
- Social cohesion. Improving access to health and education. Promoting greater equality
- across Indonesia, especially by raising standards in the less prosperous East.
- Further improvement on the World Bank's Ease of Doing Business index to 40th position
- Indonesia's National Medium-Term Development Plan 2015-19 (RPJMN) is part of the country's National Long-Term Plan 2005-2025 and focus on nine priority areas including good governance, improved productivity and competitiveness, human resource quality and self-sufficiency.

How to export to Indonesia

Department for International Trade (DIT)

DIT helps UK businesses export and grow into global markets. We also help overseas companies locate and grow in the UK and internationally. Our services are provided in over 100 markets throughout the world.

The UK Government's credit agency, UK Export Finance (UKEF) is an integral part of DIT's operations and strategy. UKEF helps companies in the UK to:

- win export contracts by providing attractive financing terms to their buyers
- fulfil orders by supporting working capital loans
- get paid by insuring against buyer default

Export from the UK

DIT provides funding to the UK ASEAN Business Council (UKABC) to run UK roadshows and events on Indonesia. You will find information about these on the Indonesian page of the ASEAN Business Council website: www.ukabc.org.uk/market/indonesia. UKABC can also offer one to one consultations with export advisors who have expertise and knowledge of the Indonesian market.

You can also visit:

www.gov.uk/government/publications/exporting-to-indonesia to access guidance for British businesses that are interested in developing their overseas trade and doing business in Indonesia.

www.gov.uk/government/publications/overseas-business-risk-indonesia to review information on how UK businesses can control risks when operating in Indonesia.

www.opportunities.export.great.gov.uk/country/indonesia to access Indonesian export sales leads.

To keep yourself updated on the Indonesian market, follow #IndonesiaMatters on Twitter.

In market support

DIT, based at the British Embassy Jakarta, proactively identify commercial projects in the sectors where there is the biggest demand for UK goods and services. We then highlight these opportunities to UK firms and support them to win business through a wide range of support, including government to government engagement, trade missions and events.

DIT also funds our Overseas Partner Delivery (OPD) the British Chamber of Commerce Indonesia (Britcham) to provide market entry services. BritCham offers market research, promote products or services, export strategy development, identify local partners and contacts, arranging company visit programmes, business matchmaking, trade missions and offering sector-specific B2B webinars.

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Department for International Trade

great.gov.uk

The UK's Department for International Trade (DIT) has overall responsibility for promoting UK trade across the world and attracting foreign investment to our economy. We are a specialised government body with responsibility for negotiating international trade policy, supporting business, as well as delivering an outward-looking trade diplomacy strategy.

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