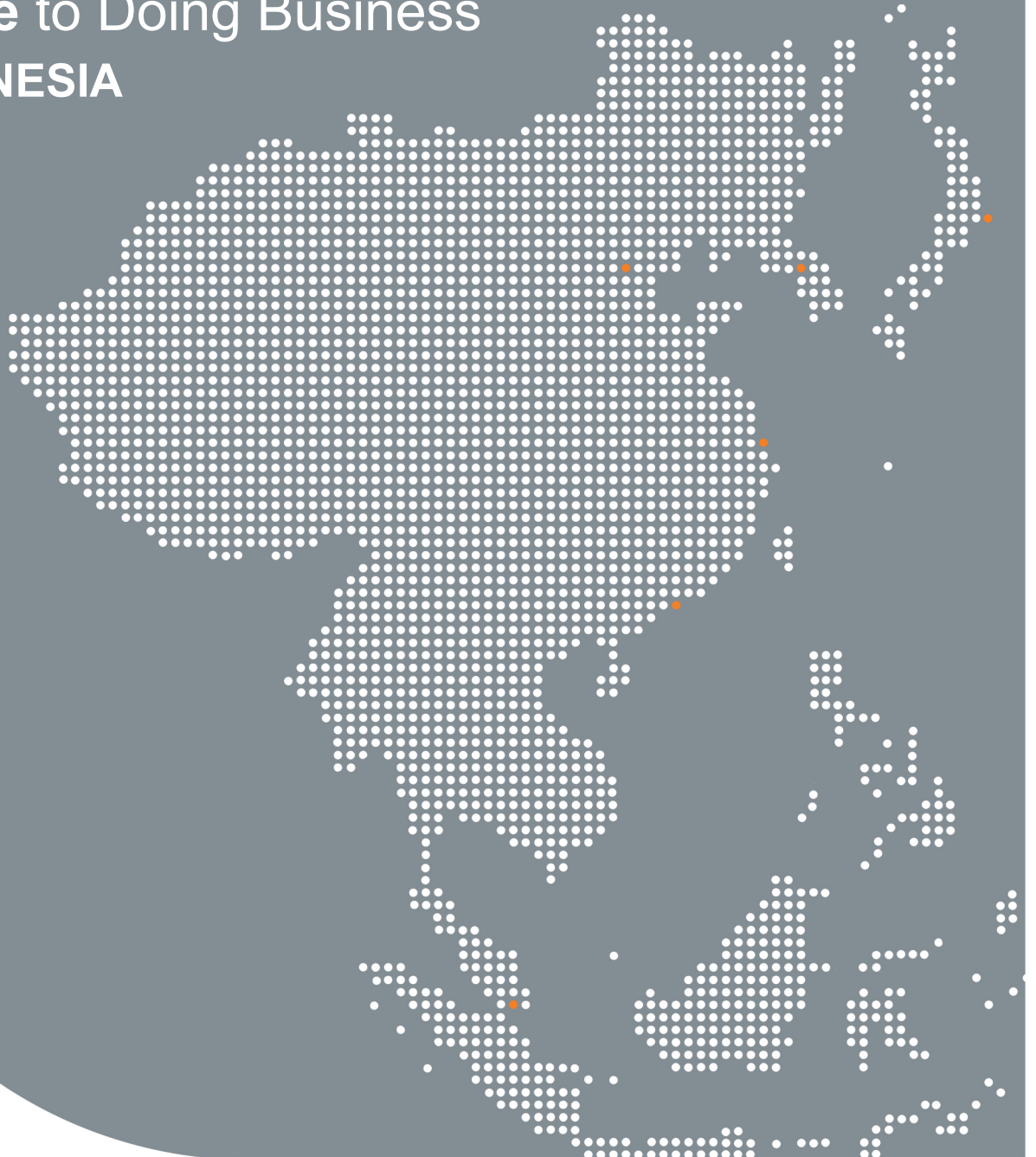


# ACCESS INDONESIA



## A Guide to Doing Business in INDONESIA



## ACCESS INDONESIA: ISLANDS OF OPPORTUNITY



Currency:  
Rupiah (Rp)

**€1.01 trillion**  
2013 GDP

**€2,750**  
income per capita

**5.3%** Indonesia's GDP  
growth in 2013

**16** Indonesia is the  
world's 16th  
largest economy



**253.6 million**  
Population of Indonesia



**4.7 million**  
Population of Ireland

**€35.5  
million**

Exports from  
EI clients to  
Indonesia 2013

**19%**

Growth in sales to  
Indonesia from EI client  
companies 2012-2013

**64**

EI clients  
selling to  
Indonesia

### INDONESIANS INCREASE SPENDING POWER

**44  
million**

Indonesians considered middle class by the World Bank  
Also the same number of the population aged 24 and under

### GROWTH SECTORS



Telecoms



Technology



Engineering



Construction



Aviation

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# 1. Introduction

***“There’s such an enormous market and it’s growing so quickly. It has a fast and growing population, there are huge opportunities for growth, the cost of labour is low and it’s based in the ASEAN market which is due to be a single market shortly ... Now is the time to come.”***

**John Galvin, Vice-Chairman, European Chamber of Commerce, Indonesia and Managing Director, Diageo Indonesia**

## Why this market is important

Termed as an emerging market alongside the ‘MINT’ economies of Mexico, Nigeria and Turkey, Indonesia had the highest growth rates of any G20 country apart from China in 2013. Indonesia is the largest economy in the ASEAN region, the 10-nation Association of South-East Asian Nations. It is the world’s fourth most populous country with more than 253 million inhabitants, featuring a growing middle class of close to 44 million people with rising spending power. Indonesia’s GDP has been growing steadily at close to six per cent in recent years and it is on course to rise by 5.4 per cent during 2014, according to the Economist Intelligence Unit, which is also forecasting strong growth in the coming years.

Adding to its attractiveness as a potential market, Indonesia’s Government is keen to attract foreign investment in order to meet the country’s growing needs, particularly in sectors such as coal, railways, ports and bauxite mining. The Master Plan for the Acceleration and Expansion of Indonesia Economic Development (MP3EI) was unveiled in 2011 and calls for infrastructure spending of more than €140 billion in order to place the nation among the top 10 global economies by 2030, up from the 16th largest today. President Joko Widodo, who won the election in July 2014, is considered a reformist and is likely to pursue a combination of pro-growth and pro-poor policies, without jeopardising the investment climate.

The money coming into the Indonesian economy at all levels is creating further demand as businesses look for supports to continue their growth. Historically, Indonesia has imported mainly from China, Japan, the US and some of its ASEAN neighbours, but there is a growing support network for European firms looking to do business in Indonesia. Irish companies with experience in supplying to sectors such as technology, telecoms and pharmaceuticals could well find their expertise sought after in Indonesia. As domestic manufacturing increases in Indonesia, firms with experience of delivering services for multinationals based in Ireland will be able to export this know-how.

Given the considerable distance from Ireland and some of the challenges in doing business there, Indonesia is best suited to companies that are experienced exporters – ideally to other countries in South-East Asia, from where they can manage the market more closely. Indonesia is not a market for the novice exporter, but the evidence is that the obstacles can be overcome: more than 60 Enterprise Ireland companies already sell to Indonesia and another sign of the potential can be seen in the 19 per cent aggregate growth in sales to the market between 2012 and 2013.

## Purpose of the report

The objective of *Access: Indonesia* is to give practical and up-to-date information on the market for Irish companies. Here you will find useful, easy-to-digest advice on the critical aspects of doing business in Indonesia for companies at all levels of their business development. This guide covers:

- How to get started
- Indonesian business culture and how it differs from Ireland’s

- Market research
- Routes to market
- Key legal issues, tax, and recruitment considerations.

## How it was compiled

This report is based on the practical experience and knowledge of highly successful people in the market, and by specialists in areas such as taxation and marketing. It is informed by the lessons learned by the many Irish business people who have succeeded in Indonesia. The report also includes commentary from a number of these people. *Access: Indonesia* is intended to be of use to a wide audience, from companies thinking of exporting to Indonesia for the first time, to those already selling in the market and wishing to examine strategic options for further growth. Compiled between July and October 2014, this report is up-to-date with the latest available research and findings.



## 2. Critical Success Factors

**“Every indication is that Indonesia is going to be a hot spot for our sector. From being over there personally, the country is booming, there’s a great spark in the country, and there’s loads of construction going on. It’s certainly going to be an exciting place over the next 10-20 years as it matures and develops.”**

**Pat Ryan, Operations Manager, PM Group**

### Introduction

The word ‘patience’ will feature heavily in this next section because personal relationships are the cornerstone of Indonesian business culture – which, by their nature, take time to develop. Indonesia is not a market for quick wins. You should plan for three years at least to become known in the market and make tangible progress. There are layers of complexity and layers of relationships to navigate. The reward comes years down the road. If you think this will be a big market for you in five years’ time, you should come now.

Bear in mind that, given its scale, Indonesia is not a culturally homogenous place. With an estimated 300 different ethnic groups, its people are a mix of Chinese, Indian, European and Malay; what’s more, the official language has only existed since 1945, so local dialects are commonly spoken, and many people tend to identify themselves with their immediate region first, before thinking of themselves as Indonesians. For this reason, the culture is highly diverse and as a result, the guidelines in this chapter are intended to be general, aimed at drawing your attention to the most significant points about doing business there. This section was prepared with the assistance of Kwintessential, a translation and localisation agency. More details on Indonesian business culture can be found on its [website](#).

### Business culture and practice

Compared to Western culture, business in Indonesia is highly relationship-driven; it’s about getting to know people and building trust with them. It’s very important to visit there and meet with people; don’t expect to do business remotely. A lot of your interaction with Indonesian people will seem like socialising. Early meetings are likely to be as much about you as a person as the product or service you are there to provide. Use the opportunity to show that you’re not just all business; it’s very much about trust and making a personal human connection. By all means ensure your product is well presented and it fits the profile and is as good as or better than your competitors’, but remember that Indonesians make decisions on a personal basis.

- In Indonesia, people are more interested in the type of person you are; showing you are trustworthy will determine if an Indonesian person will do business with you
- Key to establishing this trust is to visit the market as regularly as possible. In Indonesia, face-to-face contact is preferred to email and phone calls
- Don’t try to rush things; Indonesians value proper behaviour and wanting to get things with undue haste goes against this concept. Go through the social niceties first
- Indonesians tend to have a light handshake rather than a firm grip. Many Indonesians will shake a person’s hand and then touch their own heart, which is seen as a gesture of sincerity. It’s a good idea to comment on this; Indonesian people are happy if you notice these details and respond positively to them. It is better to wait until an Indonesian offers to shake your hand, especially in the case of women
- Hospitality is very important in Indonesia. If you are given any food or are invited to eat, take it, enjoy it and comment on it

- Show interest in the people and the culture. Indonesians are extremely proud of their country and traditions
- As Indonesians are predominantly Muslim, it is better to refrain from drinking alcohol, unless you are offered a beer by your hosts
- Indonesia celebrates a wide range of local, regional, national and international festivals. Your Indonesian host will appreciate it if you say the appropriate festival greeting. It's also worth checking in advance if any of these holidays will interrupt business. There are 13 [public holidays](#) in Indonesia, and the Government often encourages people to take an extra day near national holidays to create a long weekend. Plan your itinerary to take account of these breaks
- Although Indonesia is primarily a Muslim country, the working week is Monday to Friday, as it is in Europe
- Private business offices work either 8am-4pm or 9am-5pm Monday to Friday, with a lunch break in the middle of the day
- Many offices are also open until noon on Saturday
- Banks usually open from 8am-4pm Monday to Friday, although they can close as early as 2.30pm. In some locations, banks are open on Saturday mornings. Banks in many areas also close during Friday afternoon prayers
- Government office hours vary, but are usually 8am to 4pm Monday to Friday (with a break for Friday prayers from 11.30am to 1.30pm) and 8am to noon on Saturday. It is advisable to visit in the mornings if you need to obtain documents or submit forms.

## Making connections

Indonesia is a highly networked society, especially in the upper levels of business. Reaching the right person at the right level of your target organisation can be extremely helpful in making your business known. Introductions by a respected third party give you a kind of status and connections are the best way to make a positive start in Indonesia. Enterprise Ireland or groups such as the EU-Indonesia Business Network can help, if you haven't yet developed personal contacts in the market.

- Indonesians generally do not respond well to cold calls, and emails typically go unresponded if the recipient does not know the sender
- However, it's common practice to make a courtesy call before sending an email to a prospective customer
- It's not possible to send emails in English to set up meetings in Indonesia, unless it is to a person at the top level of a company and there is an existing relationship in place
- Titles are very important in Indonesia – it's important to know who you're pitching to and what level the person is at in the organisation. This is often connected with age
- Senior people have the power to make decisions quickly, but although Indonesian business is hierarchical, the culture also has a consensus-building element to it
- You would cause somebody to lose face if you try to go over their head in order to reach someone else in their organisation. Although they may not have decision-making power, they can strongly influence the final outcome
- Do good market research – find out not just about the company you want to work with but the best person to make headway and find the best person to help you make the introduction
- Once you make connections, it's a lifetime connection. The key is to nurture the relationship and to stay in touch – not just about business matters, but showing you remember special occasions such



as a wedding or birthday. Indonesians appreciate when you stay in contact and show that you have an interest in them personally, as opposed to just when you need something from them.

## Business meetings in Indonesia

- Even during meetings, you may experience interruptions. People might be checking emails or documents on their laptop. In Indonesia, the idea of juggling several tasks at once is not seen as rude, it's seen as managing your time well
- Wait for a signal from your host to start the sales pitch. If you're having the coffee and a chat, it's best not to push it by trying to bring the conversation around to business
- If they like you and you had a good meal together... they'll do their research as long as your product stacks up, that will make all the difference.
- Take the cue from your host. They may ask – 'I'm looking forward to hearing about your presentation. When would you like to start?'



### NEED TO KNOW

When arranging to meet partners or prospective customers in Indonesia, a phrase to keep in mind is '*jam karet*', or rubber time – the local way of interpreting arrangements, so that your appointment might not start or end at the allotted hour. It is good manners for you to arrive on time, but Indonesians place far more importance on maintaining the relationship than watching the clock. Meetings can be delayed by half an hour or even up to two hours, until the most important person arrives. Be prepared by building in a lot of flexibility into your schedule. There can be valid reasons for meetings to start late – Jakarta's notorious traffic is a valid excuse and the frequent storms are another. The importance of personal relationships in Indonesia means that attending to a family matter rather than keeping an appointment is considered acceptable, and no offence is meant. If these delays happen, remain patient and keep smiling. On the other hand, if you have a plane to catch, you can apologise and explain why you couldn't wait for the meeting, and your counterpart will understand this.

## Negotiating the deal

Having the right attitude in all matters is extremely important in Indonesia. Their culture favours harmony and any loss of face causes '*malu*', or shame. If you show an Indonesian that you are impatient, or you want to rush things in your negotiations, they will not want to do business with you. Even at an advanced stage where you may be discussing contract terms, an Indonesian prospect is likely to want to take you out to dinner and you will talk about food, sport or the weather. Some people might get frustrated because these discussions don't appear to involve the matter at hand, but in fact this is a good sign. Another important point is that Indonesia is a complex environment to do business in, and the procedures can appear very bureaucratic to Europeans. Having a positive approach to any obstacles is essential for making progress in Indonesia.

- Indonesians by nature smile a lot and are generally positive people, and they respond well to people being calm, even if discussions are not proceeding as you might wish
- In discussions with Indonesians, always ensure you never cause anyone to be embarrassed
- Even with what seems to be a big setback, hold your opinions in check
- It's important to show your understanding of the other person's issues; this helps to build trust over a period of time
- Indonesians do not like situations that cause them or the other party to lose face, and they prefer not to say anything negative. They may couch their answer in a way that appears positive, but which leaves it to you to read between the lines
- In Bahasa Indonesia, there are several ways to say 'yes' when the meaning is 'no'
- Be in control of your temper. Actions such as raising your voice, or banging a fist on the table are unacceptable. Indonesians won't do business with someone who behaves like this
- Don't be pushy: the concept of urgent deadlines is not familiar to many Indonesians and consequently they don't respond to what they feel is an arbitrary timeline
- Provided you have built up a good relationship with your opposite number to that point, it is acceptable to frame your requirements in terms of your own loss of face, for example: If you say 'we're pushed here, can you get this done, it would be embarrassing for me if it doesn't happen?'



### NEED TO KNOW

The Western emphasis in doing business is on the contract and terms of the contract, but this is much less important in Indonesia – and in Asia generally – than getting the relationship right with your prospective partner or customer. Invest a lot of time in developing trust. You will still need to have a contract that is legally sound, but the people who have been successful in Indonesia invariably are those who have spent a lot of time there, becoming known and respected.

## Language in Indonesia

Levels of spoken English vary in Indonesia, although many domestic companies that recruit graduates are said to prefer hiring people with good levels of English. Many Indonesians are likely to want to hold meetings with you in English. Some Irish companies choose the option of making their presentation in English, while their local partner translates.

- If you will be speaking in English at meetings or presentations, even with an interpreter present, it's best to speak slowly and clearly, using short phrases
- Avoid jargon or idioms when speaking to Indonesians
- Check regularly to ensure what you have said has been understood
- It may not be necessary to have your presentation materials translated into Bahasa Indonesia; in fact, some locals might think you were talking down to them if you did
- Keep in mind the Indonesian preference for not causing offence, which means they are unlikely to say 'no' directly. You will be expected to understand the meaning from the context or the phrasing they use.

## CASE STUDY: Early experiences of working in Indonesia

### Pat Ryan, Operations Manager, & Peter Roche, Group Projects Manager, PM Group

*Founded in 1973, PM Group is a highly respected architectural and engineering design and project management firm. It has operated in the ASEAN region since 2007 from its offices in Singapore, focusing on the life sciences, biopharma, food/nutrition and medical technology sectors. It began working in Indonesia in 2012.*

[www.pmggroup-global.com](http://www.pmggroup-global.com)

#### How did you get started in Indonesia?

“We established our Asia HQ in Singapore in 2008 and like the rest of the group, we focus on the biopharma/food/nutrition and medical technology sectors. We have just expanded our office here and are now working across Asia and also supporting projects through ASEAN region including Malaysia, Indonesia, Thailand and Vietnam. We have been working in Indonesia since early 2012. Enterprise Ireland made the introduction to a local indigenous client working on a concept study for a green-field facility in Jakarta. At the time, our strategic plan was to start working in Indonesia and to see what possibilities were there. This introduction by Enterprise Ireland gave us a leg in.

Over the two years that we've been involved, we've gathered a lot of information on how business is done. Our partner strategy was that we wanted to get into Indonesia but we were cautious about how to do it. But they've been one of our best clients. There has never been a problem with the relationship, and it's now given us the opportunity to take our plan a bit further, looking at working with new clients. We have a project reference we can roll out, and have a relationship with a partner and client that we can refer to in a sales discussion.

#### Did you have to work with a local partner?

Yes, for one of our current projects, we worked with a local partner, for permits and localisation, and we used the same strategy in Malaysia, Thailand and Vietnam. The partner company we worked with was of Dutch origin but they would have a lot of locals and a lot of local knowledge. You do end up relying on that to get work done and achieve the project goals, especially with regard to code compliance around design codes and regulatory bodies. We worked on the concept design, all done from our office, but in the next phase, detail design, we had to create a split between us and our partner to maximise the value for the client. PM Group provided services in process and utility design and compliance with GMP [good manufacturing practice] with our partner doing the building design. Then, our partners took

the lead on the construction on site, with support from us. During the course of the project we learned a lot of things particularly as a result of dealing with local requirements. Our contract was directly with the client.

We actually have two partners in Indonesia: one that we executed the project with and we have another partner that we have been doing various proposals with. This works because we have a lot of Good Manufacturing Practice [GMP] expertise and process expertise and they're providing civil and structural engineering using local knowledge. It's quite a good fit for us to partner with a local engineering consultancy. It's not an exclusive arrangement; we are free to work with other partners. We select the partner that best suits our clients' needs and requirements. It's down to the client or the sector, and the type of project. At any one time, we might be bidding on two projects with one partner and looking at another where the client has a company they prefer to work with. Whatever the option, we'll help get the best service for our client.

### **What has your experience been?**

Your experience depends on the particular industry you're working in. We work in very high-tech sectors, whereby we're talking about expensive equipment and strong technical process expertise. One of the things we found is that it's not as easy to get the right local suppliers and contractors with experience in those areas because Indonesia is very much an emerging country.

### **What have you observed about doing business there?**

We've found in all our dealings in Indonesia that people are true to their word and they have an honest approach to doing business. It's a relationship-based culture: I have been surprised how many people attend meetings and are keen to get involved in discussions, socially, as well as on the project. We haven't been dependent on one or two people; so a lesson learned was to keep close to the client and the whole team – something we are well used to working for multi-nationals in the pharma, mission critical and food industries.

Our impression from the high-level surveys is that there are great opportunities in Indonesia. Every indication is that it is going to be a hot spot for our sectors. From being over there personally, the country is booming, there's a great spark in the country, and there's loads of construction going on. It's certainly going to be an exciting place over the next 10-20 years as it matures and develops. It has its challenges, the biggest one being the commute within the country. Currently, you would need to allow maybe two and a half hours for what should be a one-hour trip.

My advice would be to arrange only two meetings per day. In our sectors, a number of clients are very close by in one location, but outside of those, you have to allow half a day: a couple of hours to get there and then some more commute to the next client. Jakarta is a huge city, but there's not much public transport infrastructure. The normal form of transport is taxis, or to hire a driver.

A final word of caution: the rate of inflation is quite high. Indonesia is a rapidly developing country, so a company investing there needs to have that built into their investment costs, as some indications are it might rise in the next couple of years.

### **What advice would you give to Irish companies thinking about doing business in Indonesia?**

Choosing the right partner is extremely important: someone to share and have a learning experience with as you enter the market in Indonesia. Building strong relationships and trust at the outset is very important, with the client and the partner. We find Indonesian people easy to get along with, which means we work more effectively as partners. You have to be aware of softer cultural items. It is a Muslim country, and you need to be respectful of the culture around for example, respecting praying times etc.”

# STARTING IN THE INDONESIAN MARKET





### 3. Starting in the Indonesian market

“Just because you’ve got a product in Ireland that’s wanted, don’t assume you can adapt that to local requirements. You have to spend money on research and development, and marketing to ensure the product is matched to consumer needs.”

**Geoff Allen, General Manager and Director, Synergy Flavours (Thailand)**

#### Introduction

Indonesia is experiencing rapid economic growth, and consequently there are many potential opportunities for Irish companies provided they can find gaps in the market for their product or service. Keep in mind that Irish companies and people are not well known, whereas Japanese companies, for example, have been well embedded in the Indonesian market for a long time. Japanese products are considered to be high quality, so the bar has been set high for Indonesian consumers’ and businesses’ expectations of other foreign suppliers. For this reason, it is essential to research carefully in advance to identify opportunities and to position your product competitively. Some of this research is possible from Ireland, but to get a true sense of what awaits, you should plan to visit the market sooner rather than later.

#### Geography

Indonesia comprises 17,508 islands, 6,000 of which are inhabited, between the Indian and Pacific Oceans. The total landmass is almost 2 million square kilometres. Indonesia lies close to the routes of many of the region’s primary shipping lanes, and the capital, Jakarta, used to be one of the world’s great trading ports. Situated right on the Equator, Indonesia is the largest nation in South-East Asia and the largest in the world made up entirely of islands. It spans three time zones and does not operate daylight savings time, so between April and October, Jakarta is six hours ahead of Ireland and seven hours ahead at other times.



Slightly more than half of Indonesia’s population lives in urban areas. Jakarta, by far its biggest city, has more than 10 million inhabitants and is located on the island of Java. Other major population centres are Surabaya, Bandung (both on Java) and Medan (Sumatra) – each with more than two million inhabitants – as well as Semarang (Java) and Palembang (Sumatra). There are no direct flights between Ireland and Indonesia, so a trip from Dublin to Jakarta will usually involve at least one stop-over and total flying time of around 16 hours. The options increase if you are already doing business elsewhere in the ASEAN

region; from there, Indonesia is very accessible from nearby countries in South-East Asia such as Singapore and Malaysia, with a range of low-cost carriers offering cheap access by air.

## Demographics

Indonesia is the fourth most populous country in the world, home to more than 253 million people, made up of 300 various ethnic groups. The majority of the population consists of young people, with more than 43 per cent aged 24 or under. The average age is slightly above 29 years. The rapid rate of consumer growth has many commentators bullish about the market. Boston Consulting Group classifies three in 10 Indonesians – some 74 million people – as middle-class and affluent. This segment is being continually swelled by up to nine million more people per year. By 2020, it's estimated that more than half of Indonesia's population will be in this category. Although Indonesia has the largest Muslim population in the world, it also has a large number of Protestants, Catholics, Hindus and Buddhists. There are many cultural influences at play in Indonesia, as its citizens are a mix of Chinese, European, Indian, and Malay.

## Market research

As Indonesia is an emerging market, it can be difficult to gain information about specific companies, but there are some good general information websites that can help your initial desk research. Much of this information is available in English.

### [Indonesia.go.id](http://Indonesia.go.id)

The national portal of the Republic of Indonesia, it has details about the various Government structures in the country, and also includes information about visas, taxation and investment.

### [Indonesia Investment Coordinating Board](http://Indonesia Investment Coordinating Board)

BKPM is the Indonesian Government agency responsible for helping foreign companies do business in Indonesia. Its functions include regulating the Company Law and the Foreign Investment Law. International investors must first get approval from BKPM. The agency also oversees business start-up and licensing procedures, which have historically been one of the more difficult aspects of doing business in Indonesia. The site includes a step-by-step procedure to establishing a legal entity and applying for the various licences required.

### [Statistics Indonesia](http://Statistics Indonesia)

Official State site with up-to-date information about a range of areas, from social and population-related figures to statistical data about trade and the economy.

### [Kadin Business Support Desk](http://Kadin Business Support Desk)

The Indonesian Chamber of Commerce and Industry operates this site, and a key focus is on facilitating international trade and investment into Indonesia. It has a regularly updated section with publications, and more information about the business environment and practice.

### [Indonesia-Investments](http://Indonesia-Investments)

English-language site that mixes business and financial news along with details of investment opportunities in Indonesia, project listings and useful tips for investors.

### [Living in Indonesia](http://Living in Indonesia)

This website is written for expatriates living in, or moving to, Indonesia. It has many articles with essential information about relocating to the country, and the site includes a section with many links to information about doing business there.

The [Jakarta Post](http://Jakarta Post) is a generalist newspaper, available in English, with a business section. [Republika](http://Republika) is another prominent paper in Indonesia. The [Trading Economics](http://Trading Economics) Indonesia page is useful for macroeconomic information such as GDP figures.

### [Google](http://Google)

Using Google's Indonesian homepage to research customers or competitors will return different results to the .com or .ie domains. Google's [Translate](http://Translate) tool can also help overcome the language barrier during early-stage research. However, this should not be a substitute for hiring translation services to localise your own marketing material for Indonesia, if required.



## NEED TO KNOW

A great source of market intelligence is Enterprise Ireland's Market Research Centre at East Point in Dublin. It offers client companies access to company, sector, market and country information to explore opportunities and compete in international markets. Much of this information is not readily available elsewhere. Please visit the [centre's page on the Enterprise Ireland website](#) for more information on the market research facilities available, and for a database of sector-specific information that will indicate whether there is research available for the market you wish to target.

## Business networks in Indonesia

Personal connections and networks are very important in Indonesia, and initiatives are under way to support Irish and European companies looking to do business there but which don't yet have the local links needed to make progress with potential customers.

There is a range of supports for companies. [Eurocham](#), the European Business Chamber of Commerce in Indonesia, has 18 working groups providing assistance to exporters, across sectors ranging from automotive and energy to financial services, food and agriculture, infrastructure, pharma and retail. Similarly, the [EU-Indonesia Business Network](#) is an EU-funded initiative aimed at helping companies from all Member States, and SMEs in particular, to do business in the island nation. It is part of a €20 million, five-year EU investment to help European companies do business in four ASEAN countries: Indonesia, Vietnam, Malaysia and The Philippines. Among its many functions, the group is lobbying actively to allow EU standards, including testing, for products to be sold in Indonesia.

## Social media

As internet access has improved throughout many parts of Indonesia, social media use has risen rapidly. There are now as many [Twitter](#) users there as the entire population of Singapore – more than 4.8 million people. Some 35 million Indonesians are on [Facebook](#) – the social network's second highest market worldwide.

## Trade shows

Always a useful source of sales leads and an opportunity to become known in a new market – either by arranging a speaking slot, or simply to meet prospective customers. Regular attendance at the main conferences and events in your sector is recommended. Indonesia hosts many events and conferences, and you can find information about some of the more prominent trade fairs [here](#). For more information on events in which Enterprise Ireland is involved, visit [www.enterprise-ireland.com/events](http://www.enterprise-ireland.com/events).

## Building market presence

At first, your company or brand will most likely be almost totally unknown in the Indonesian market. This potentially means having to spend more effort on awareness raising and on marketing than your competitors, especially domestic ones. The most effective way to use your marketing budget is to test the market for a specified time using some combination of the following options. Get advice on whether or not you need to have your website translated for the Indonesian market. It's also more cost-effective than producing hard-copy content; you may not need to have your technical marketing material translated at the start.

## Web presence in Indonesia

The internet should be a key part of your marketing mix in Indonesia, where there are close to 72 million internet users (June 2014 figures). Keep in mind that average broadband speeds in the market are relatively slow, at just 4Mbps, and many people access the web through their phones, which is worth keeping in mind if you plan to reach Indonesian customers by online channels.

Research has shown that having a strong web presence in your new target market is critical to success, irrespective of whether you operate in the B2B or B2C space. Companies looking for a new B2B supplier will have made about 60 per cent of their decision before making contact with or inviting proposals from potential vendors. Most of this initial fact-finding and due diligence is based on what they find online, which is why it is vital to have a **competitive, compelling and highly visible** web presence in your target market.

#### *Competitive*

- Who are your main online competitors in Indonesia? How do they articulate their USP on their website? What is their approach to Internet marketing?
- What content and features does your website in Indonesia have to provide so that it can successfully compete with its competitors online?
- What Internet marketing strategies do you need to adopt to stand out amongst the noise created by your online competitors in Indonesia?

#### *Compelling*

- Trust and credibility: What content and features does your Indonesian website need to provide to build trust and credibility in your company and offering, given your brand is likely to be unknown or less well known in Indonesia?
- Culture: How can you adapt your Indonesian site to the country's specific cultural requirements?
- Language: What changes are required to written and spoken text on your website to adapt the language of the Indonesian website to your target audience?
- Standards and conventions: What adaptations do you have to make to the website content and design with respect to Indonesian standards and conventions?

#### *Highly visible*

- How do you optimise your Indonesian website for the leading search engines in Indonesia: e.g. domain strategy, keywords, links?
- The Indonesian top-level domain is .id but it's not essential for international companies to use this address; Indonesian companies are comfortable with .com; however using .ie for this market is not advisable as it could be perceived as too parochial
- What other Internet marketing approach do you need to implement to make sure potential customers in Indonesia become aware of and visit your website, e.g. search engine marketing, social media, online directories, price comparison engines etc.?



#### **NEED TO KNOW**

While the internet can act as a gateway for Irish companies to Indonesia and elsewhere in South-East Asia, it is also an ideal platform for infringers to sell counterfeit products and commit fraud. The easier it is for third parties to infringe on your trade mark, the more strongly you are advised to register a specific domain name. In order to register a top-level domain (TLD) name in Indonesia (.co.id), the registrant must be an Indonesian corporation and the corporation name must match the domain name or an Indonesian trade mark, and the name must match the domain name exactly. It typically takes about one year to register a TLD in Indonesia.

#### **Hard copy**

Corporate marketing material is a useful sales tool at events such as trade fairs which are likely to play some role in your initial market building. Ideally, this should include an overview of the product or service

you provide, contact details, and if possible, some endorsement by a significant customer. Indonesia is very brand-conscious and strong international credentials are valued.

Keep in mind that it's only a support to you, the person, which is the most important consideration for an Indonesian prospect. Depending on the level of English that is spoken in your target market, it may be worth translating any brochures into Bahasa Indonesia. It's also worth remembering that Indonesia is a predominantly Muslim country – although many other religions are also practised there. Cultural sensitivity is advised, and it's worth checking in advance whether the imagery and wording you would normally use with your brochures and other material is appropriate.

## **CASE STUDY: Setting up in the Indonesian market**

### **David Spain, Chief Financial Officer, H&K International**

*Set up in Canada in 1975 and now Irish-owned, H&K International supplies kitchen equipment to the international fast food and casual dining industry. The company operates a regional HQ in Singapore and in 2013 it acquired a 6,000m sq manufacturing facility in West Jakarta, with 150 employees, to serve its customers across Asia.*

[www.hki.com](http://www.hki.com)

#### **How did your presence in Indonesia come about?**

“We service the large global chains such as McDonalds, Burger King and Subway. We have manufacturing facilities in Mexico, the UK and the US and a local partner in China. We have had a partner in Indonesia for about 15 years and that partner provided us with manufacturing capacity for the region. Asia was a smaller part of the overall global solution up until recently, but in the last five years we've been trying to penetrate the local market. We bought the manufacturing facility from the partner at the start of 2013. It was challenging: definitely not easy, nor straightforward. It's fair to say H&K hasn't done many acquisitions. We looked at other options in the region and we expected the greatest demand in the region would be in China and Japan for our solution. They're the two largest markets in Asia for the quick-service chains for whom we currently provide solutions. Having the partner in Indonesia gave us some comfort and we knew we didn't have to reinvent the wheel. We had a workforce, we had a going concern and we knew the quality of the end product going back years. Our original plan was to buy the company, but we identified we would be best to limit our exposure to acquiring the tangible assets. Indonesia is a very complex place to do business, in our experience, and for foreign investors it's not made easy. We relied heavily on the local partner in smoothing the process, registering for the various permits, getting VAT clearance and so on.

#### **How easy a process was this?**

To give an example, our Asian headquarters are in Singapore, where you can incorporate a company in a day; in Indonesia, you're talking months. Things take time, you need to be patient and you don't always get what you want when you want it: registration and processes take time. Incorporating the entity, getting the appropriate business licences, importation licences effectively took up to 12 months. We effectively had to lease the employees from our partner until we had our own registration. Had we come in and incorporated on our own, we would have been sitting on our hands for 12 months. We were fortunate that we were able to use our partner for that.

When I say partner, I say someone to guide us: a local person to provide us with local intelligence and assistance with local customs and procedures. We made the decision to take the leap to manufacture in our own right in Indonesia, to acquire the assets in our own right and integrate the business into our global model, bring in best practice, improve the processes and increase capacity to serve not only the ASEAN region but also China, Australia and New Zealand.

We drove the process ourselves, using our own global tax advisors, KPMG. The overall structure was agreed and had been advised by KPMG Ireland and we used the local network for support on the ground. Similarly on the legal side, we used our network from outside Indonesia and we found an affiliate office of our local Irish lawyers. With the legal framework, it was different and that process in itself was difficult. We were fortunate in Europe and North America, where business processes are more familiar to us; coming to Asia is relatively new for H&K.



### **What other things have you noticed about doing business in Indonesia?**

We found the culture and way of doing business different. For example, relationships are important and because Indonesia was new to us at the time, we didn't have those relationships. Indonesia is the largest Muslim state in the world and they would be very respectful of their faith. One of the first things we did was, when we got into the factory, there were very basic facilities, so we invested in proper washrooms and remodelled the mosque in our factory. It is very common in Indonesian businesses to have a praying area for their employees. People pray on average five times a day, and on a Friday they have an extra 30 minutes for Friday prayer. When you are doing business in Indonesia, the people there have very strong faith and you have to be respectful of that. We didn't do it for that reason, but I think things like that were well acknowledged, particularly the mosque.

We're bringing in best practice, and providing opportunities for people to move departments. We've brought in our own thoughts and ideas, while being respectful for local beliefs and culture. And it's recognising that at the end of the day, people come in to do a hard day's work and we feel we've improved the working practices within the business.

### **Overall, what are your impressions of the market and its potential?**

In terms of the big picture, there are a lot of positives: we have a very capable workforce with a very strong work ethic and very dedicated employees. Many of our staff members have close to 20 years service. They're very loyal, and that doesn't seem to have changed with the change in ownership. The challenge in hiring has been at senior management level. Those that have the right educational experience have the pick of companies to work for.

There is a very busy port in Jakarta. We produce for the Australian market from Indonesia and there are very favourable duty free rates within the ASEAN region. The long-term goal is that we will get our quality to a standard that will be good enough for the Japanese market.

Our experience in Indonesia has been challenging; you have to be patient and you have to have boots on the ground. I travel here regularly, as do many of my colleagues in senior management and we have deployed key management resources from around the global business, to train and coach the local team. We recognise that we have to be patient in that. Have we made a mistake coming to Indonesia? Not at all. The benefit of hindsight taught us that we needed to be patient. It took time to get our licences and up on our own two feet, and we're fortunate to have many dedicated employees. You have to be prepared to make mistakes, and that's the same in any business. Having a local partner has been a key plus for us, in providing that local guidance and coaching.”

# ROUTES TO MARKET



## 4. Routes to Market

**“You have to visit time and time and time again. Don’t expect to get business and walk away again. You’ve got to give it a year and if you’re working with a local partner or agent, you’ve got to support that person or company, 110 per cent.”**

**David Lawson, Marketing Director, Botany Weaving**

### Introduction

Choosing the right route to market in Indonesia is critical; local agents in particular play a critical role because of their knowledge of the local legal environment and the way of doing business. As has been discussed elsewhere, trusted, and long-standing, personal relationships are a key part of Indonesian business culture. The connections they can provide means that you need to visit regularly in person to establish your own links in the market.

### Direct sales from Ireland

Unlike in other markets where it’s possible to sell largely on the strength of the product or service you provide, serving the Indonesian market remotely from Ireland through email and web conferences doesn’t work. At the very least, you will need a committed local agent or partner working on your behalf, and key to ensuring this commitment is regular contact – which itself requires management time and financial investment to support it. If you don’t intend to have a local office – not necessarily in Indonesia itself but in the ASEAN region – then you will need to budget for sufficient travel to spend time in Indonesia as you develop your business. For this reason, the market is best served if you already have some form of presence elsewhere in the ASEAN region, such as Singapore.

### Partners

A local partner is strongly advised in Indonesia, due to the complexity of doing business there. A good partner will be familiar with the territory and the constantly changing procedures and regulations. This puts great emphasis on picking the right one. What’s more, Indonesia is highly networked, especially at the upper levels of business, which makes connections extremely important. A good partner can introduce you to decision makers much more quickly. Access to the right people only comes from relationships that are built up over time. A local partner should be able to facilitate meetings with decision makers in your target customers.

- Spend sufficient time identifying and qualifying suitable partners for your business in Indonesia
- A sign of a good potential partner is one that works in a complementary area to your own business and is keen to discuss how you can generate business together
- To assess the value of a potential partner, do thorough background checks: ask other Western companies with which that person has already partnered. Their experience will help you to decide how you are likely to fare in similar circumstances
- If you are contacting customers directly during the business development phase, they may be able to recommend a local company with which they have already worked
- Even when you may have identified a potential partner, conduct extensive due diligence via Enterprise Ireland, through a legal firm, or consult with some of the European business networks
- Unlike in Europe where it’s possible to arrange meetings by email, in Indonesia, access is granted through personal relationships, which a good partner should have

- If your business intends to hire staff in the country, it can be a useful option to employ administrative or non-essential workers through your partner's company rather than the Irish entity
- Any commercial terms with an Indonesian partner should be agreed in advance and stated clearly in any contract
- It is hard for an Irish company to seek recompense in Indonesia, so you need to be comfortable with the level of risk you are undertaking.



### NEED TO KNOW

Any agreements with a local agent or distributor must be notarised and registered with Indonesia's [Ministry of Trade](#). The Ministry makes a clear distinction between both types of organisation: an agent is considered as an intermediary of the foreign principal, whereas a distributor acts on its own behalf and sells the principal's products or services in the market. If an agreement is terminated early, any arrangement with a new agent or distributor can only come into effect – having been authorised by the MOT – after you have obtained a 'clean break letter' from the previous party. Contracts often contain a six-month trial period, to allow both parties to test the working relationship in practice, but it's better to choose the right partner the first time than atone

## CASE STUDY: Working with an agent in Indonesia

### David Lawson, Marketing Director, Botany Weaving

*Specialists in aeroplane interiors, Botany Weaving designs and manufactures transport seat and curtain fabrics and carpets from its headquarters in Dublin.*

[www.botanyweaving.com](http://www.botanyweaving.com)

#### How did your sales in Indonesia come about?

“We just look for opportunities and markets. At that time, it was just an agent who suggested Indonesia to us, and we started to get the contacts. We have been working with our agent for the past 12 years. You certainly need an agent in Indonesia, and it's very difficult to find a good one. There's no vetting process as such. Generally, if someone has contacted us, we've gone to see them and given them a chance, the same as we would in most countries. It's very difficult to know how good your agent is. Some are good with one particular customer – and I'm talking about our specific market which is very limited in each area. Indonesia has four airlines of value for ourselves – there are smaller companies besides that, but they're not for us. Our customers in Indonesia are Garuda, Citilink, Lionair and Sriwijaya Air. There's also Air Asia, but we deal directly with them in Kuala Lumpur. Lionair recently ordered the largest number of single-aisle aircraft from Airbus ever, and they're buying from us, so it's significant as part of a whole. I think Indonesia is a market for those companies that have already got sales in neighbouring countries. People in Indonesia will look at Singapore, and if you're well established there, they will look at you. Among our first customers were Qantas and Cathay, and other companies took more of an interest as a result of that.

#### How closely do you work together with your local agents in practice?

Obviously you can't be there all the time, but if you're going to be in Singapore, or Thailand, or Malaysia, they're only two or three hours away and the low-cost carriers are so cheap, it's worth making the trip. I usually fly out with KLM to Kuala Lumpur and a flight from there to Jakarta is €60. And if you're flying from Singapore, the flights are €40. So if I'm in the region, I let some people know that I've got some time, and ask is it important to visit the customer. It is all just about confidence building, relationship building, problem solving ... there's always some project that's going on. Your competitors are always showing products, so you have to be doing something similar. Meetings last between half an hour and one hour,

so you can start at 10, you're finished at four and you can easily see four customers in six hours. But we're in a fortunate position in that our customers are concentrated in the airports. There's always new people coming in, which is why continuously going in and out means you're building relationships with people and they will help you. Hopefully they will like you, and they will like your agent.

### **What are the main differences with doing business in Indonesia compared to Ireland?**

Anywhere in Asia, you have to visit time and time and time again. Don't expect to get business and walk away again. You've got to give it a year and if you're working with a local partner or agent, you've got to support that person or company, 110 per cent. And the Asian way of doing things is, they want to feel comfortable with you. I wouldn't expect anybody to get any business just by going there and showing the product, unless your agent is very good, has good connections and has good faith in you. I would never expect business straight away, unless you're a very strong company, as we are in the aviation market. You have to work at it. And that's true from Indonesia all the way up to Korea. You're almost halfway round the world, they have to feel you understand them, and you understand the market. You've got to be trustworthy. We're fortunate in the industry that it's controlled by Airbus and Boeing and they have a very limited number of suppliers. Our customers are limited to buying from those approved suppliers. We are one of only three other companies that would be like us for the product we're selling. So for us to sell isn't as hard as maybe selling butter or whatever.

In terms of formality, I would say always wear a shirt and tie but it's rare to wear a jacket, because it's so hot! They're quite casual in Indonesia – but I would point out, that's specific to the airline industry. In terms of understanding the culture, I've never had any lessons. All I've done is just be myself. There are special gestures that people from different cultures would give to each other, but people there understand you are Western and as long as you are a well-behaved Westerner, you will be fine. You cannot be arrogant. A smile goes a long, long way. Joke with them, but in a nice way. Compliment them – say how much you like the food or the weather, the experience when you flew in and that you have heard nice things about the country. Don't start doing business straight away. You might be offered a cup of coffee because if you're in Indonesia, it will be Indonesian. Compliment the coffee. Then towards the end of the meeting you can talk about your product and what you're doing. There's no hard sell; make them feel relaxed first. Find out who's the senior person and acknowledge them as that. That goes very much for all of Asia.”

## **Distribution**

One of the objectives of Indonesia's domestic trade policy is to improve the efficiency and effectiveness of distribution, which points to the difficulties that an Irish company may encounter in such a geographically diverse market. The high cost of logistics is one of the key challenges in supplying the market. What's more throughout the ASEAN region, distributors in some sectors are less likely to get involved in sales activities or technical support, so you may need to ensure you have appropriate resources in your own company to supplement the work of the distributor on the ground. Be clear about what the roles and responsibilities are before entering into any agreement.

### **CASE STUDY: Building a trusted relationship with a distributor**

**Geoff Allen, Managing Director, & Servane Cobac, ASEAN Export Manager, Synergy Taste**

*A division of the Carbery Group, Synergy is a leading supplier of flavours, essences and extracts for the global food and beverage industry. The company exports to the Indonesian market from its regional hub in Thailand.*

[www.synergytaste.com](http://www.synergytaste.com)

**What makes Indonesia attractive as a market for Synergy, and what progress have you made there?**

“It really is the population. When you look at our heritage as a dairy company, Indonesia imports a lot of its dairy needs, so we have a real point of difference. These markets are expanding, and Asian people are eating more cheese, more fast food. In the first year, we had very poor market entry. By year three, it was the first time we saw it having a significant impact on our business. Now, about 20 per cent of our sales in



Thailand go to Indonesia. Next year, we will have a lot of projects and we will see a lot of opportunities because of the size of the market. If it gets to more than 30 per cent of our turnover in the region, we'll look to do something more, and maybe look at some sort of facility there, or maybe a joint venture. We have looked at costs in Indonesia both in a joint venture and on our own. There would be advantages of being close to market. Sales come a lot quicker because you're there and customers can see that you're local. You can show a lot more new products a lot more often. Our understanding is that we could set up as a foreign company 100 per cent, but later we would have to give up half to an Indonesian shareholder.

### **What's your route to market?**

We use a distributor in Indonesia to get to market. We employed a sales agent based in Singapore and we found him through someone who worked for us, and he introduced us to around 10 distributors around Asia and we chose one to work with. We put out a plan to them to enter the market, the types of customers we want to speak to, and then we ask what Synergy can bring to the distributor and what do they need from us. We then work to test the market for around 12 months and decide from there. With distributors, the long-term strategy for them is that they would like to do joint ventures with their principals. They always want a goal to head towards. That can be very hard to unpick afterwards, and if you change distributor afterwards, the customer is going to see that. You need to make sure a million per cent after the first visit that this is the right distributor for you, which is why referral so important. You need to spend time and money on your distributor – once you've chosen the right one – and show them your headquarters and the manufacturing facility, and you will enjoy many years of business.

### **In practice, how do you manage the relationship with the distributor?**

Servane draws up a target list of customers, which we draw up through internet research and referrals. We give this to the distributor who sets up the appointments and we send one of our commercial and technical team. They'll spend a week every month with the distributor and they'll grow business together. We show our flavours working with a product, and then we discuss the commercial aspect through margins and so on. Servane talks with the distributor on a regular basis, almost every day. We make weekly adjustments to our targets. We support him with advice and she meets him every month with a defined itinerary. At the end of the day, it's all about trust. With a distributor that's really focused, really enthused and wants to win, that can be really fantastic. We would advise getting a recommendation about a distributor from somebody you trust. Some distributors don't follow up enquiries or they try to make too much profit margin, or aren't open with customers. The best ones are the ones that are referred by other companies. Sometimes we'll go to a potential customer direct and ask them if there is a company they like to work with. In the case of the Indonesian distributor, they called us and wanted to find a way of making this work. We're in a much better place now: they're not only distributors, they're also friends. We built the relationship, and we built trust. I even invited the Indonesian distributor to my wedding... it's that sort of trust.

### **Did you have to overcome any language or cultural issues?**

When selecting a distributor, you need to make sure they speak English. In Asia, we present in English and the distributor will talk while we're presenting, in the local dialect. It's not considered rude. If we were to put Bahasa Indonesian on the screen, we would be seen as talking down to them. We try to use simple words and not talk too quickly. If anyone is unsure, we go over it again, without talking down to them. We've found that people in Ireland can't always come to Asia because they talk too quickly or don't make the emotional connection with Asian customers. You need to have a certain presence. It's a very different sale. We've had examples of technical people that have come to Asia and could turn a whole room of people against them. You can't be seen as being aggressive or condescending, or superior in any way. It's really quite difficult.

### **In what other ways have you found the Indonesian market different to elsewhere?**

There's a lot of red tape getting product through customs in Indonesia, the paperwork has to be very precise. You can't put a price on that local knowledge of customs. For example, we had an issue with paperwork. We thought it was the distributor being awkward; actually they were correct and we were wrong. Whatever they ask you on paperwork, just do it. We were slow because we didn't listen to our distributor. The most important thing is to pick your partner well and they will tell you what you need to do. Just because you've got a product in Ireland that's wanted, don't assume you can adapt that to local requirements. You have to spend money on research and development, and marketing to ensure the product is matched to consumer needs. You can't just expect a cheese-type flavour, for example, to be the same profile. We needed to spend a lot of time understanding the market. Cheese in Ireland is very

strong and acidic. In Indonesia, it tends to be very milky and sweet. Making those milk and cheese products and adapting them to the Indonesian profile has proven very successful.”

## Local offices in Indonesia

It is possible to set up a local office in Indonesia to help your business become more established and to maintain relationships in the market. Seek good advice and support about the procedures needed to do this, as you will need a permit from the appropriate Government agency – or possibly more than one. There are several different options open to you, and these are discussed in more detail in the next chapter.

## Joint ventures/acquisitions

Joint ventures and acquisitions can be a successful route to market in Indonesia, as a fast way of gaining a foothold in the market, with the advantage of bringing on board established contacts, customers and market knowledge – three elements which are especially important in Indonesia and would be much harder to achieve either remotely from Ireland or setting up a brand-new office in-country. There are several examples of where Irish companies have successfully used one of these two options in the market; the Kerry Group operates PT Armita Abadi as its subsidiary in the Indonesian market, and Independent News & Media has also invested in the publisher of the Jakarta-based daily newspaper Republika. Many Indonesian partners see joint ventures as a long-term goal of working with Irish companies, so it is an option to keep in mind when setting out your initial plans.

## Selling to the Government in Indonesia

Irish companies coming in to the market are likely to find it very difficult to do business with the Indonesian Government due to its long-established business relationships with existing providers which can effectively exclude unknown outsiders. Due to the high levels of investment coming into Indonesia, some public projects can seem attractive but it is best to be cautious. Subcontractor opportunities may be a better way to get involved in this area, albeit at arm's length from the negotiations. You may have more success with foreign-financed initiatives, where local knowledge and influence is less of a factor.

# LEGAL ISSUES IN INDONESIA



## 5. Legal issues in Indonesia

**“The headline figures for Indonesia are extremely impressive, and the reality of the opportunity is absolute, but there are challenges which come from the speed at which business moves. You can’t force the pace. To avoid being frustrated, have some candid conversations at the start.”**

**Brendan Hannigan, Partner, Allen & Overy Asia**

### Introduction

The World Bank puts Indonesia in 120th place out of 189 economies in its rankings for ease of doing business. Indonesia’s unpredictable legal and regulatory environment is one of the challenges to doing business there, although it is also worth stating that the obstacles can be overcome. The approach of patience, perseverance and persistence that applies to your business development in Indonesia can be just as easily employed in the legal aspects of your dealings in the market. Educating your company about the potential risks requires a big investment of time and plenty of ‘soft’ research in advance, from talking to others with direct experience of doing business in Indonesia.

It is worth familiarising yourself at a high level with some of the various legal obligations in selling to Indonesia. What follows in this chapter is a brief summary of the main points. There are also useful outlines at the [UK Trade & Invest website](#) and at the [US Commercial Service](#). The [EU-Indonesia Business Network](#) has comprehensive information on setting up a business in Indonesia, along with thorough details of the current requirements for exporters to the market. As good an overview as these sites provide, it is widely accepted that Indonesian legislation can change rapidly. For this reason, you are strongly advised to seek expert legal advice to guide you through the process.

- Indonesia’s legal system is very different to the common-law approach found in Ireland, partly due to its roots in Dutch law which has become localised over the years
- Unlike many of the certainties found under Irish law, precedent is not considered binding under Indonesian law, and many issues are decided on a case-by-case basis
- If you require regulatory approval, your business will almost always have to engage with the regulator in order to get clarity on your position. Before doing so, you should have the benefit of legal advice and be familiar with what the rule is and how it has been interpreted in other instances
- An important point to remember is not to make any assumptions; a rule that appears to be a significant business risk may in fact not be, but there could be other aspects of doing business that have greater potential to set back your efforts in the market.
- Foreign ownership of a business is permitted in most sectors in Indonesia, but there is a regulation called the [Negative Investment List](#), or Negative List as it’s more commonly known, which sets out the thresholds for permitted investment by international companies
- Sectors on the Negative List are derived from the Indonesian Standard Classification of Economic Activities (KBLI). Sectors that are open subject to conditions usually involve restrictions on the maximum foreign ownership permitted and sometimes specific requirements, such as approvals from specific ministries or agencies
- Certain sectors are completely open, others are completely closed and others are subject to percentages

- When assessing whether you can own a company in Indonesia, your first step should be to ask what industry sector you operate in. Keep in mind, the definitions can be highly granular, so you will need to discuss this in advance with a lawyer to determine your next move
- Foreign investors who opt for 100 per cent initial ownership are normally expected to divest some share of the business – even 1 per cent – to Indonesians after 15 years
- In practice, it may be prudent to include a local partner as a part-shareholder from the start, in order to benefit from their market knowledge and contacts.



### NEED TO KNOW

It's a good idea to seek legal advice early, in order to better understand how the rules could affect your business – bearing in mind that they are liable to change. Moreover, because Indonesian laws are open to interpretation, you need to carefully discuss the element of risk with a legal or tax advisor as appropriate, and decide what is acceptable for your business. If a dispute arises in Indonesia, it is highly recommended that you seek international arbitration rather than use the local courts. This will need to be addressed in your commercial agreement at the outset.

## Setting up a company

There are various ways to operate a business in Indonesia including:

- Setting up a joint venture company
- Establishing a representative office

The '*Penanaman Modal Asing*' (PMA) is the corporate entity required for foreign investors under the terms of the foreign investment law. It takes the form of '*Perseroan Terbatas*' (PT), a limited liability company, with the joint ventures as shareholders.

### PMA companies

- May be either publicly listed on the stock exchange or privately owned
- Must have two parties holding shares; either a legal entity or an individual
- The foreign investor's shareholding percentage must meet requirements under the Negative List (see above).

### Representative office

Foreign companies may open and maintain a representative office and the representative may be foreign or local.

- The most basic is the Foreign Trade Company Representative Office, which can handle promotion, market research and can act as an intermediary
- A representative office can undertake sales promotion, market research and assistance to local agents and distributors
- A representative office does not have the authority to accept offers, sign contracts or handle distribution – in effect, any profit-making business activities.



## Corporate tax

- Corporate income in Indonesia is taxed at 25 per cent
- A foreign company with a permanent establishment in Indonesia has the same tax obligations as a resident taxpayer
- Foreign companies without a permanent establishment will settle tax liabilities through withholding of the tax by the Indonesian party paying the income.



### NEED TO KNOW

There is no double taxation agreement between Ireland and Indonesia, so you may need to structure your agreements through another location such as Singapore or the Netherlands.

## Income tax

Taxpayers are obliged to make a prepayment of their annual tax obligation by a withholding of 2.5 per cent (7.5 per cent if the company does not possess an import permit) of cost, insurance and freight (CIF) value of imports.

## Customs

- Import duty is payable at the rates from 0 per cent to 150 per cent on the customs value of imported goods. The average duty rate is 10.89 per cent
- Certain products such as books, laptops and certain electronic products are exempt from duty
- Any duty to be paid are calculated on the complete shipping value, which includes the cost of the imported goods, the cost of freight, and the cost of insurance
- Some products can be charged based on a unit of measure. In addition to duty, imports are also subject to sales tax, and in some cases to excise and STLG.
- It is possible to apply for an exemption, deferment or restitution of import duties where the import meets criteria, such as:
  - Imports used in production of exports
  - Capital goods, spares and raw materials by manufacturers and certain other sectors
  - Equipment and materials imported for use in a foreign aid-funded project.

There is more information about import declaration procedures and import restrictions at the website of Indonesia's [Directorate General of Customs and Excise](#), although not all of the sections have been translated into English.

## VAT

Value Added Tax (VAT) and Goods and Services Tax (GST) are applied to most goods and services in Indonesia.

- Imports are subject to VAT and GST

- VAT and GST taxes are called *Pertambahan Pajak Nilai* (PPN), which is a 10 per cent point-of-sale tax
- PPnBM (*Pajak Pertambahan Nilai dan Pajak Penjualan atas Barang Mewah*) is a sales tax on luxury goods. It is levied in addition to PPN and is imposed on luxury goods which are manufactured in or imported into Indonesia. Rates range from 10 to 50 per cent. Some items can be taxed at 75 per cent. The definition includes perfumes, cosmetics, digital and video cameras, watches and clocks, suitcases, alcoholic drinks and motor vehicles.

## Documentation

In Indonesia, having the correct paperwork is vital. Check with your importer or agent about the documentation you will need when exporting products to Indonesia. Different products will require different documents due to rules set by the Government authority.

- You will need a commercial invoice which must be signed by the manufacturer and must contain the:
  - name and address of the shipper
  - place and date of the shipment
  - name and address of the consignee
  - number and kind of packages
  - content and weight of each package
  - tariff number, marks and numbers
  - A pro-forma invoice is not compulsory, but will be needed by importers for quoting the price.



### NEED TO KNOW

One of the major obstacles to doing business in Indonesia concerns obtaining the necessary permits and licences; this process can be time-consuming and expensive. It is advisable to work with a specialised local consultant to advise you on the issues. The third-party advisor should be reliable, experienced and have close connections with the relevant authorities.

## Currency

When setting your pricing for the Indonesian market, quote in Euros or Singapore dollars if possible. Otherwise you should make arrangements to hedge for a set period of time. The strong risk of inflation with the Indonesian Rupiah could lead to a situation where you have agreed a price for a project and the difference in the exchange rate reduces your profit margin substantially.

## Exchange controls and transfer pricing

Indonesia imposes foreign exchange controls, and in general the Rupiah is freely convertible. However, transfer pricing is an important issue to note because of differences in interpretation between the [Indonesian Tax Office](#) and the [OECD](#).

## Visas

For travel between Ireland and Indonesia, Irish passport holders can avail of the Visa on Arrival (VOA) scheme for short social visits of up to 30 days. Further information about this scheme and other types of visas can be found on the website of the [Indonesian Embassy in London](#), which is accredited to Ireland.

- If you plan to invite an Indonesian customer or partner to Ireland, keep in mind that Indonesian citizens must obtain a visa prior to entry to Ireland for all types of visits

- Further details of the different categories of visa that can be applied for and the documentation required in each case can be found at the [Irish Naturalisation and Immigration Service](#)
- Travellers in both directions should ensure that their passport is valid for at least six months from their intended date of departure from the country being visited.

## Intellectual Property Rights in Indonesia

Indonesia is a member of the World Trade Organisation (WTO) and, generally speaking, the country's IP legislation is quite comprehensive. In theory, the current legislation covers all aspects relating to the protection of intellectual property and is in accordance with international agreements including TRIPS and the Berne and Paris Conventions. However, it should be noted that enforcement mechanisms in Indonesia are very much in need of strengthening. Below are some general tips relating to intellectual property rights in Indonesia, which all Irish businesses should consider before looking at Indonesia as a potential investment destination.

### General IP Tips in Indonesia

Intellectual property rights are territorial in nature and, as such, it is important that Irish companies are aware that even if they are registered and/or protected in Ireland, or elsewhere in South-East Asia for that matter, they are not protected in Indonesia (with the exception of copyrights).

- Indonesia operates under a 'first-to file' system, meaning that the first person to file for an IP right, even if not the original owner of that IP, will own that right once the application is granted
- Bad faith registrations are common, where local players intentionally register pre-existing IP, often resulting in blocking the market to the legitimate owners
- Although the situation could be considered to be improving, it is still worth discussing potential corruption risks with your lawyer when enforcing your rights via the authorities
- As enforcement is problematic, it is essential that Irish companies register their rights in Indonesia in order to stand any chance of defending them
- In the case of copyright, although registration is not required (protection is automatic upon the creation of the work) a copyright certification would be highly beneficial in the case of potential legal proceedings
- The decisions handed down by the IP office and courts in Indonesia are quite often unpredictable, with little or no consistency in some cases.

### Copyright tips in Indonesia

- Even if created during the course of employment, copyrights for works created by an employee in Indonesia do not automatically belong to the employer
- The employment contract you use for employees should specifically address how ownership of any new IP created is to be assigned.

### Patent tips in Indonesia

- Patent specifications need to be translated into Bahasa Indonesia and translation error is common
- This is compounded by the lack of procedures to correct such errors once a patent is granted
- Irish companies should pay special attention to the translation of the independent claims as this is the most important part of the document.

### Trade mark tips in Indonesia

- Owing to a relatively high bad-faith registration risk, Irish businesses should consider registering their most important trade marks in Indonesia before commencing business dealings there
- Some bad-faith registrations are filed by authorised distributors and problems usually arise when the rightful owner wishes to replace the existing distributor. It is therefore crucial to register in your own name and never in the name of your local representative.

### Trade secret tips in Indonesia

- In trade secrets cases, it is necessary to prove that the trade secret has been taken by the suspected party
- Proving this may be difficult because the litigation procedure is not equipped with a discovery procedure to uncover relevant evidence of the suspected party.

### Customs in Indonesia

Custom officials technically have the power to suspend a consignment if they have reason to believe that it contains counterfeit goods. However, in practice they do not make seizures as specific information on a suspected shipment, as well as supporting documentary evidence, is required in order to get the court to issue a court order to suspend the shipment.

### Enforcement in Indonesia

Criminal enforcement is difficult due to various factors such as a certain lack of transparency in police procedures.

- While Indonesia's IP laws make provision for substantial maximum fines and prison sentences, in practice, only minor fines are given for IP crimes
- There is still a lack of consistency in sentencing for IP offences, which is one of the major obstacles to creating an effective deterrent environment
- Civil litigation is expensive and seldom the preferred option when dealing with trade mark or copyright infringement
- In many cases, private mediation via legal professionals could be more effective and should be considered as a viable option, particularly for SMEs with budget constraints.



### NEED TO KNOW

Managing and protecting intellectual property in Indonesia can be challenging, but it is certainly not impossible. Unfortunately, there is no one-size-fits-all approach when it comes to the protection of your intellectual property in any jurisdiction outside of the European Union. In line with its expected accession into the ASEAN Economic Community (AEC) by the end of 2015, Indonesia has agreed to become party to the Madrid Protocol (international registration system for trade marks) and the Hague Agreement (international registration system for industrial designs). Despite this, and other international systems and protocols which Indonesia increasingly adheres to, it is vital that all Irish companies think strategically about their intellectual property and assess what and how it should be protected in Indonesia. To find out more about protecting and enforcing your intellectual property in Indonesia, conducting an IP audit and how you can use IP as an asset in your business in Indonesia, contact the ASEAN IPR SME Helpdesk for free confidential advice now on [question@asean-iprhelpdesk.eu](mailto:question@asean-iprhelpdesk.eu) or +62 21 571 1810.

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*The ASEAN IPR SME Helpdesk is an EU-funded initiative which provides European small and medium enterprises with free training and advice on IPR in Southeast Asia. For more information on the management, protection and enforcement of intellectual property rights in Indonesia, contact the ASEAN IPR SME Helpdesk team for completely free confidential advice from IP experts within five working days at [question@asean-iprhelpdesk.eu](mailto:question@asean-iprhelpdesk.eu) or check out the [website](#).*



## 6. Growth Sectors

### Introduction

Many factors combine to make Indonesia attractive to companies seeking new export markets. Its GDP growth rates are impressive, it is politically stable and it has a solid fiscal and monetary base. The country is rich in natural resources such as petroleum, tin, natural gas, timber, bauxite, copper, coal, silver and gold. Indonesia's population – the fourth largest in the world – makes for an extensive domestic market. Major multinationals including the furniture retailer Ikea and the Spanish bank BBVA are investing in the Indonesian market, attracted by the rapidly growing consumer class.

Indonesia is the largest economy in South-East Asia and the 16th largest in the world. The Economist Intelligence Unit expects the country's real GDP to expand by 5.4 per cent in 2014, having grown by 5.7 per cent in 2013. In recent years, Indonesia has become more prominent in global organisations, notably the World Trade Organisation and the G20 group. The medium-term outlook of private consumption is strong, as the number of formal-sector jobs is set to keep rising throughout 2014-18, particularly towards the end of the period. By this time, it is expected that Indonesia will have become more integrated into global manufacturing supply chains. The EIU expects faster economic expansion between 2015 and 2018, with average annual growth expected to be 6.3 per cent.

The World Economic Forum's Global Competitiveness Index ranks countries annually on a range of different indicators, and placed Indonesia 38th out of 148 countries in 2013, having improved from 50th position out of 144 the previous year. Although the country was starting from a low base, this progress is due in part to the [MP3EI](#) economic master plan which was unveiled in 2011. Among its objectives is a policy roadmap intended to lift the nation into the top 10 global economies by 2025, raising GDP per capita from its current level of €2,750 to €12,000. Indonesia is also looking to boost industrial growth in the regions outside Java. The plan is supported by three pillars: identifying 'economic corridors' in Indonesia; improving human resources, science and technology; and increasing connectivity in Indonesia and ASEAN as a whole by investing in infrastructure.

According to Forrester Research, Indonesia has one of the best short-term outlooks for economic growth prospects across the Asia-Pacific region. It noted that business confidence for 2014 was highest in Indonesia than in other Asian countries. The following chapter provides an overview of some important sectors in the Indonesian economy, and identifies where Irish companies could find opportunities to export.

### Telecoms

In its ICT development index, Frost & Sullivan categorises Indonesia as "evolving gradually" and consequently having high potential for growth. Broadband penetration is seen as playing a significant role in the nation's economic development. According to a recent ITU report, a 10 per cent increase in broadband penetration could increase the regional GDP by 0.7 per cent. Indonesia's mobile market was said to enjoy a boom in recent years, with restructuring having already taken place and privatisation introduced. Now, growth is moderating and competition is increasing. The market now has 3G services, and use of fixed-wireless networks are also expanding.

- Indonesia first came online in 1994 but has struggled to provide universal access due to shortcomings in its public telecoms network
- Indonesia's total broadband base stood at 4.3 million in June 2014, up from 3.82 million at 31 December 2013
- The household broadband penetration rate is 6.5 per cent, compared with a regional average of more than 30 per cent
- The pace of development has improved in recent years, although high speed mobile data far outpaces growth in fixed-line broadband
- Telkomsel has around two-fifths mobile market share, but competition is increasing



- Total wireless subscribers as of June 2014 stood at 301 million – a penetration rate of 120 per cent
- Cable broadband remains a niche technology in Indonesia
- There were more than 75,000 Wi-Fi hotspots around Indonesia by the end of 2013
- VSAT has acted like a backbone in supporting the growth of the communication sector. About 70 per cent of users in Indonesia are banks and financial institutions.

### **Opportunities for Irish companies**

Average revenue per user is falling in Indonesia, and with competition intensifying, operators are looking to provide value-added services in order to increase their market share. Another area that is growing strongly is in providing services to enterprise and business customers. Here, operators are looking to add white-label components from third-party providers that can fit into their offerings. Other areas Irish companies should consider are enterprise mobility services and utility services, whereby operators provide paperless services that allow for bills to be paid online.

## **Technology**

Large local enterprises have different maturity levels. The nation has a significant number of large private conglomerates such as Astra International, Djarum, the Lippo Group and the Salim Group that have grown dramatically over the past number of years. Many of these are run by ethnic Chinese families who tend to have a very conservative approach to technology investment.

- Banking and telecoms companies lead tech spending in Indonesia
- Indonesian SMEs appear to show greater appetite for technology, seeing it as a way to become competitive and deliver better value to clients
- IT and sourcing strategies among smaller Indonesian firms are typically more ambitious than their larger counterparts – as seen by their openness to hiring foreign CIOs, or using cloud computing services hosted in locations such as Singapore
- As multinationals arrive in Indonesia, they are bringing more mature IT practices.

### **Opportunities for Irish companies**

Small but highly visible opportunities exist in the retail, transportation and service sectors. Forrester Research anticipates that growth in Indonesia's IT market will be fastest in IT consulting and application management, followed by systems integration, maintenance and support services and by infrastructure management services. Firms looking to grow a presence in Indonesia will need to rely on third-party service providers to design, build and maintain their information systems.

The biggest challenge that the Irish companies need to overcome is to establish a competitive differentiator in the market. Throughout Asia as a whole, buyers are technically mature, so it will take extensive research to establish where the points of differentiation are needed. Buyers need to understand what advantage they will have from working with an Irish company, especially given a factor like distance. Technology requires a good support system and Indonesian customers will want to see how robust this is. A competitor based in Asia can provide timely customer service, so Irish companies must either have a direct presence in the market or else work through a reseller or systems integrator that has an existing support infrastructure on the ground. Not just in Indonesia but across Asia, the major technology trends that are driving spending include cloud computing, big data, the 'internet of things' and digital media.

## **Aviation**

Indonesia's aviation industry is developing to become one of the most promising in Asia, driven by rising passenger numbers and a growing number of domestic and regional flights. The increase in air travel within Indonesia has resulted in part from the poor infrastructure for alternative transport such as railways and roads; it's easier and cheaper to fly and this has led to such rapid growth.

- Indonesia is expected to reach 100 million air passengers annually by end of 2015
- This is an increase from 82 million per annum five years ago
- Unlike many other nearby markets, more than 50 per cent of this traffic is domestic passengers
- The national carrier, Garuda Indonesia, is expanding its fleet, increasing destinations and looking to improving quality of service with the aim of becoming a five-star airline
- Indonesia also has several competing low-cost carriers including Citilink, Sriwijaya Air, Lion Air, Kal Star Aviation and Wings Air
- Lion Air plans to increase from 100 aircraft now to 1,000 by 2020, to compete in Indonesia and in nearby ASEAN markets
- New air infrastructure is being built in many parts of Indonesia, including a MRO site in Batam, new airports in West Java and the expansion of airports at several locations including Bengkulu, Bangka-Belitung, Tarakan, Labuan Bajo, and Sulawesi.

### **Opportunities for Irish companies**

There are many opportunities for Irish companies in a range of aviation-related areas ranging from training of pilots and ground crew, technical engineering and flight operations to maintenance, ground operations, infrastructure such as airport, ICT support. As Indonesia develops to become more efficient at serving a much larger anticipated customer base, this is driving a need for investment in state-of-the-art technologies and support systems to handle the increased traffic.

With new airports coming on stream at Bengkulu, Bangka-Belitung, Tarakan, Labuan Bajo, and both central and southeast Sulawesi, areas such as accreditation, training and safety will need to be addressed. One of the needs is ensuring engine inspection meets international standards.

There is growing demand among airlines for driving ancillary revenue such as allowing customers to pre-buy meals, book their seats in advance or arrange car hire when booking a flight. Technology providers in this space are likely to see some interest from players in Indonesia. Another need is for systems to handle inter-airline billing, for long-haul travellers who make stopovers which involve changing airlines.

## **Construction and engineering**

Indonesia plans multi-billion dollar investment in major infrastructure projects over the coming years to avoid falling behind other economies in the region, but these do not present realistic opportunities for Irish companies. Instead, it's better to identify private construction projects in specific sectors, such as in manufacturing or pharmaceutical facilities. The large indigenous population is leading to strong domestic demand for products ranging from plastics to fertiliser, which in turn is driving the creation of chemical manufacturing plants and other facilities. Indonesia's industrial sector also includes manufacturing of textiles, cement, electronic products, rubber tyres, clothing and shoes, and wood processing.

- Indonesia's manufacturing sector is expected to grow by 10 per cent per year until 2025
- Government policy is to have 70 per cent of plastics goods produced in Indonesia
- The chemical industry is part of a strategy to accelerate industrialisation
- There has been a 400 per cent growth in food manufacturing FDI projects since 2010
- The number of chemicals-related projects grew at a CAGR of 13.3 per cent between 2009 and 2013
- A Government programme to improve the wellbeing of the population is driving a need for more medicine – creating in turn a larger pharmaceutical sector.

## **Opportunities for Irish companies**

Irish companies are advised to take advantage of existing relationships with multinationals that they may already be working with as a way into the market. In the pharmaceutical sector, for example, this currently presents a larger opportunity than domestic pharmaceutical providers, which still produce basic medicines. However, with the expected opening of the ASEAN single market in 2015, competition is likely to compel domestic facilities to improve standards, which could create opportunities in areas such as automation, and software for precision machinery.

Companies in the pure construction, engineering and manufacturing areas must partner with a local company in order to avail of opportunities, but providers of niche software or automation equipment may be able to sell directly without an Indonesian partner. If providing equipment, one way to convince buyers could be to propose skills transfer whereby local staff are trained to use and maintain the equipment.

Other sectors where Irish companies can focus are high-end food and beverage packaging and processing facilities such as in the milk and dairy field where they can point to experience in a highly mature market like Ireland's. The key point of differentiation must be that Irish companies should niche technology or a unique service to compete with a local or a regional player.

Ultimately, whichever channel an Irish company chooses, it must convince local buyers that it can deliver. Showing the portfolio is important and having a good local partner can help. As has been stated before in this report, business development in Indonesia takes time in order for the company to become known.

# HOW ENTERPRISE IRELAND CAN HELP YOU SUCCEED IN INDONESIA



## 7. How Enterprise Ireland can help you succeed in Indonesia

Enterprise Ireland is committed to assisting clients in entering new markets and expanding your business in your current markets. A team of experienced marketing professionals is ready to help you through Enterprise Ireland's overseas network of over 30 offices. Enterprise Ireland can help you build your business across Indonesia. An overview of our service offering is listed below:

### Pre-Visit Support

Enterprise Ireland can provide:

- A sector overview
- A validation of the opportunity for your product/service
- An evaluation of your market entry strategy
- Suggested channels to market
- Competitor analysis
- Relevant contacts/suggested itinerary
- Summary of relevant market information resources.

### In-market support

Services available include:

- Scheduled appointments with market contacts including Government
- Office facilities/sales incubator units
- Facilitation of buyer visits to Ireland
- Product launches/workshops at Enterprise Ireland offices/Irish Embassy/Consulates
- Networking opportunities at events
- Public Relations support and press release service
- Trade fairs/trade missions
- Market development support to access new regions/sectors in Indonesia
- Introductions to local development agencies for setting up in Indonesia
- Introductions to third-party professional service providers including legal, marketing/PR and recruitment services
- Access to external expertise and advice.

### International trade events programme

Every year, Enterprise Ireland organises an extensive programme of events to support your business abroad. These include:

- Inward buyer missions to Ireland
- Group stands at important international trade fairs
- Overseas trade missions
- Study visits to gain knowledge of overseas markets
- Client knowledge events including seminars and workshops
- Networking events to build and enhance relationships with market contacts.

Further information is available at: [www.enterprise-ireland.com/events](http://www.enterprise-ireland.com/events).

### International market contacts

Enterprise Ireland has built up a network of individuals in Indonesia who are available to work with Irish client companies on developing their business. This includes market and sector specialists, business

accelerators and members of various business associations.

## Additional supports

We can offer additional supports in the following areas:

- Access to translation and interpreting services
- Introductions to specialist expertise such as legal, recruitment, public relations and taxation
- Access to mentors.

See [here](#) for further information on the services of Enterprise Ireland overseas.

## Financial Assistance

Enterprise Ireland client companies may be eligible to receive financial assistance towards the cost of researching or travelling to the market. For more information, contact Enterprise Ireland's Singapore office.

## Contacts in Indonesia

### Enterprise Ireland serves the Indonesian market from its office in Singapore

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