



## Market profile

Indonesia is the largest economy and the most populous country in Southeast Asia. Located between Asia and the Pacific, Indonesia offers geopolitical and economic strategic values. This developing nation is very keen to upscale its economy through infrastructure investments in various fields, such as energy, smart cities, roads, and urban transportation. Currently, the building of the new capital in Borneo Island, called Nusantara, offers many interesting opportunities for Finnish companies.

Indonesia plays a vital role in the region. Not only did it pioneer the creation of the Regional Comprehensive Economic Partnership (RCEP) back in 2011, but it also held the G20 Presidency in 2022 and the ASEAN chairmanship in 2023. Currently, Indonesia is a signatory to 18 Free Trade Agreements, which are all implemented. The EU Indonesia Free Trade Agreement is still under negotiations. Moreover, the Council of the OECD decided to open accession discussions with Indonesia in early 2024.

Politically, Indonesia is a democratic country that implements the *Trias Politica* (separation of powers between legislation, administration, and jurisdiction), while Pancasila (Five Principles) is the state philosophy. Islam, as the religion of the majority, plays an important role politically and economically. Currently, there are nine political parties representing national and regional legislatures. The general election for legislative, presidential, and local government heads was held in early 2024, where Prabowo Subianto was elected as the new President.

Geographically, Indonesia is an archipelago of more than 17,000 islands. This vast area is believed to be responsible for the cultural, ethnic, and linguistic diversity found there. Indonesia is home to almost 1,340 ethnic groups and 700 local languages. This is the background for the enactment of Indonesian (Bahasa Indonesia) as the language of unity in the *Sumpah Pemuda* (Youth Pledge) of 1928.

### FACTS

- Capital: Jakarta
- Major Cities: Bandung, Surabaya, Medan, Semarang, Makassar, Samarinda, Denpasar
- Official language: Indonesian
- Independence: August 17, 1945
- Currency: Indonesia Rupiah (IDR)
- GDP, PPP (Constant 2017 international \$): \$3.42T (2022) – 7<sup>th</sup> globally
- GDP, Constant 2015 US\$: \$1.12T (2022) – 17<sup>th</sup> globally
- GDP Per Capita, Constant 2015 US\$: \$4,073.6 (2022)
- Indonesia's Exports to World: €149.78B (2019), 143.1B (2020), €192.93B (2021), €278.34B (2022)
- Finland's Exports to Indonesia: €220.66M (2019), €149.15M (2020), €231.47M (2021), €282.85M (2022), €582.59 (2023)
- Finland's Imports from Indonesia: €175.95M (2019), €153.5M (2020), €190.56M (2021), €242.46M (2022), €187.48M (2023)
- Area: 1,904,569 sq km – 15<sup>th</sup> globally
- Population: 275.5 million (2022) – 4<sup>th</sup> globally

## Economy and business structure

Indonesia is suffering premature deindustrialization; this is where the contribution of manufacturing industry sectors to the economy is shrinking, from around 32% in 2002 to only 20.47% in 2022. Within the manufacturing sector, the low-value-added industry has been predominant, with the food and beverage industry becoming the most significant contributor (37.21% of the non-oil and gas manufacturing sector). Indonesia needs its manufacturing sector to transition from low-value-added manufacturing sectors to high-value-added manufacturing sectors. This phenomenon has been one of the primary causes of entrapping Indonesia in the middle-income trap and also causing considerable job losses. Another issue faced is the regional disparity that has been plaguing Indonesia for decades. The island of Java, which only accounts for 7% of Indonesia's area, contributes more than 60% to the national economy. The new capital development project, where the capital is to be moved from Java's Jakarta to Borneo's Nusantara, is set to diversify and balance the regional disparity.

These two issues necessitate prompt remedies, particularly in the form of infrastructure and human capital development. Indonesia is now reallocating a substantial portion of its resources for infrastructure investments. Enhancing connectivity and reducing logistic costs are the primary catalysts for greater growth and equitable development. To sum up, Indonesia is in desperate need of investments in infrastructure, telecommunication, digital connectivity, energy, health, and education. The New Capital Development also offers many opportunities in the sectors mentioned above.

As a quickly developing country, Indonesia's economic growth is resilient: GDP growth is projected to an average of 4,9% (2024-2026). Indonesia is projected to be the world's fourth largest economy in 2050, which offers many opportunities for Finnish companies. Indonesia has committed to reach net zero by 2060. They have defined three priority issues: strengthening the global health architecture, digital transformation, and energy transition. Indonesia's vision is to become a high-income country by 2045. As Indonesia is back to upper middle-income country since last year, this also affects development financing of some governmental projects, restricting also Finnish development funding.

Indonesia is striving for institutional reform by introducing omnibus law, which seeks to eradicate bureaucratic inefficiency associated with ease of doing business, overlapping regulations, lack of coordination between central and local governments, etc. This law is anticipated to facilitate investment and business commencement. Indonesia is highly eager to encourage any foreign investment into its economy.

**Economic Sectors (% of GDP, 2022):** Wholesale and retail trade (11.18%), construction (10.04%), food and beverage manufacturing industry (7.26%), information and communication (6.70%), plantation crops (3.86%), education services (3.15%), real estate (3.03%), food crops (2.67%), financial intermediary services (2.61%), coal and lignite mining (2.53%), and others (46.96%)

**Main Export Partners (2022):** China, USA, India, Japan, Malaysia, South Korea

**Top Export Products (2022):** Mineral fuels, mineral oils and products, Animal or vegetable fats and oils and their cleavage products, Iron and steel, Vehicles other than railway or tramway rolling stock, and Ores, slag, and ash

**Main Import Partners (2022):** China, Japan, Thailand, South Korea, USA, Australia

**Top Import Products (2022):** Machinery and mechanical appliances, Electrical machinery and equipment, Iron and steel, Plastics and articles thereof, Vehicles other than railway or tramway rolling stock, and Organic chemicals

**Ease of Doing Business ranking:** 73/190 - World Bank's Doing Business 2020 Report

## Key industries and their trends

**Key industries:** Wholesale and Retail Trade, Manufacturing Sectors, Construction, Food and Beverage Industry, Information and Communication, Plantation crops, Food crops, Coal, Palm Oil, Tourism, Restaurant and Hotel.

**Future trends:** The government is striving to augment manufacturing productivity through infrastructure, vocational training, and inventive financing. The government is also endeavoring to create special economic

zones for this purpose. This backing for manufacturing is propelled by its significance to the structural transformation of the Indonesian economy. The export ban on metal ore such as Nickel from early 2020 was one of the measures taken by Indonesia to downstream the base metal manufacturing industry in the country. In the future, Indonesia is also targeting bauxite and copper to be subjected by similar export ban in hope for developing further the domestic base metal manufacturing industry and, thus, making Indonesia into an strategic international hub for electric vehicle and battery ecosystem. Besides manufacturing, tourism sectors, particularly halal tourism, are aimed to be one of the champions in advancing the Indonesian economy. For this, supporting sectors such as restaurant, hotel, food and beverage industry, communication, etc. are playing a pivotal role. Indonesia's lush natural landscape is the reason behind the championing of the tourism sector. Lastly, as the government is also aiming to phase out coal-based energy power, Finnish expertise in clean energy is most likely required. Digitalization also offers opportunities for companies, for example in e-government services and smart highways.

## Important things to consider when doing business in Indonesia

One of the biggest problems with starting a new company in Indonesia is getting all the necessary permits. The licensing process can be time-consuming and expensive. In order to successfully develop business in Indonesia, it is essential to build a good network with businesses and the government. Foreign entrepreneurs should be aware of the importance of these networks and seek to develop them.

Fortunately, building such a network is not difficult because foreign entrepreneurs are attractive parties for Indonesians. It is highly recommended to explore cultural values first to know how to socialize with Indonesian business partners and employees and understand 'business culture' in Indonesia. These are links that may convey useful information:

[Foreign Investments](#)

[Establishing Foreign Company](#)

[Establishing Representative Office](#)

## Market data sources and other useful links

[Statistics Indonesia](#)

[World Bank - Indonesia Country Profile](#)

[Trademap - Indonesian Export Data \(HS 2\)](#)

[Trademap - Indonesian Import Data \(HS 2\)](#)

[Doing Business in Indonesia - World Bank](#)

[Doing Business in Indonesia - PWC](#)

[Official Website of the Government of Indonesia](#)

[Ministry of Investment, Republic of Indonesia](#)

[Visit Indonesia](#)