



# BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN INDONESIA 2021

A REPORT FROM TEAM SWEDEN IN INDONESIA

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# FOREWORD

Sweden and Indonesia enjoy a long and successful history of exchanging ideas, knowledge and technology in a long-term partnership aiming towards mutually beneficial growth. Last year, the Sweden-Indonesia Sustainability Partnership (SISP) was established to facilitate and drive more collaborations forward, to introduce and expand Swedish businesses to the market, while also supporting Indonesia in its efforts to deliver on the 2030 Agenda and the SDGs.

With a population approaching 270 million, rising domestic demand and massive investments in physical and digital infrastructure, Indonesia is without a doubt a market with great potential for Swedish businesses. The first Swedish company in Indonesia was established more than a hundred years ago and today almost 100 Swedish companies and brands are present in the market. They are operating in a wide range of industries such as energy, construction, consumer goods, transportation and healthcare.

This report aims to learn from the experience of these companies and understand how they view the current business climate in Indonesia. We hope that the insights they share will be of great value to any Swedish company that is exploring the Indonesian business opportunity. We would like to extend our gratitude to the participating companies who have contributed to this report and look forward to continue our collaboration going forward.



**Marina Berg**  
Ambassador of  
Sweden to Indonesia



**Erik Odar**  
Trade & Invest  
Commissioner of  
Sweden to Idonesia

# EXECUTIVE SUMMARY

## REPORT COVERAGE

**45%** of Swedish companies established in Indonesia participated in the survey

## ECONOMIC OUTLOOK

**50%** of Swedish companies reported a profit in 2020

## INVESTMENT PLAN

Swedish companies expect future positive performance with **54%** planning to increase investment

## INDONESIA'S ECONOMY

GDP is forecasted to rebound to **4.7%** according to research by Oxford Economics

## MARKET

**75%** of Swedish companies have been present in the market for more than a decade

## BUSINESS CLIMATE

**45%** of Swedish companies take a neutral position on Indonesia's business climate

## BUSINESS CONDITION

Top three positive conditions of Indonesia's business climate are: personal safety, access to service providers, and access to distributors

## HOW TO SUCCEED

*Cost efficiency, brand awareness, and partnerships* are the top three factors needed to maintain competitiveness

## SWEDISH BRAND

**65%** of Swedish companies believe that the "Swedish brand" contributes to their business

## CORRUPTION

**42%** of Swedish companies reported that corruption affects their business much or very much

## HUMAN RIGHTS

**54%** of Swedish companies perceive a low risk of human rights and labour violation when doing business in Indonesia

## SUSTAINABILITY

**45%** of Swedish companies believe that environmental aspects play little or very little extent in purchasing decisions in Indonesia

# ABOUT THE SURVEY

## The survey provides insight into Swedish companies' perception of Indonesia

The Business Climate Survey is a collaboration tool between Business Sweden and Sweden's local embassies, consulates, and chambers of commerce to gather first-hand perspectives and insights into business trends, issues, and challenges in various markets. In Indonesia, Business Sweden collaborates with the Swedish Embassy in Jakarta.

This survey was carried out in March – April 2021 and distributed to over 50 Swedish companies present in the market; a total of 24 respondents and a response rate of 45% was achieved. The views presented in this survey are indications of those Swedish companies' perspectives of doing business in Indonesia.

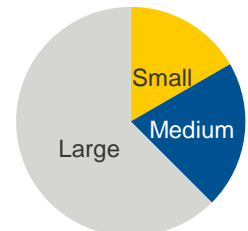
More than 60 per cent of responses come from large companies, 21 per cent from medium-sized companies, and 11 per cent from small companies. Half of the respondents were from the industrial sector, 25 per cent from the professional services sector, and 8 per cent from the consumer product sector.

About half of the participants are experienced companies that have operated between five to twenty years in Indonesia, while 38 per cent of the respondents are companies deemed mature, present in Indonesia for more than twenty years. The remainder are newcomers with only a few years experience in the market.

The report is divided into four main sections. The first section presents the economic outlook of Swedish companies in Indonesia. The second section elaborates on the respondents' perception of the business climate as well as the advantages and disadvantages of doing business in Indonesia. The third section covers Swedish companies' operations and perceived success factors. The fourth and final section explores sustainability-related aspects of business in Indonesia and how these factors impact companies' operations.

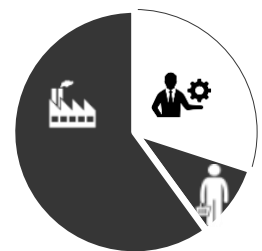
The survey questions and response interval have been synchronised with Business Climate Surveys carried out in other markets worldwide to enable comparison where relevant.

### SIZE OF COMPANIES



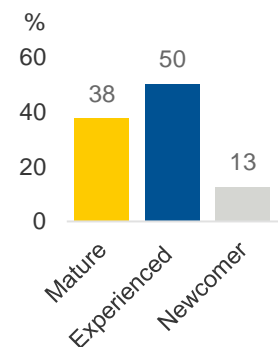
NOTE: Global employees.  
Large >1000  
Medium 250-1000  
Small 0-249

### MAIN INDUSTRIES



NOTE:  
50% Industrial  
25% Professional services  
8% Consumer

### AGE OF COMPANIES



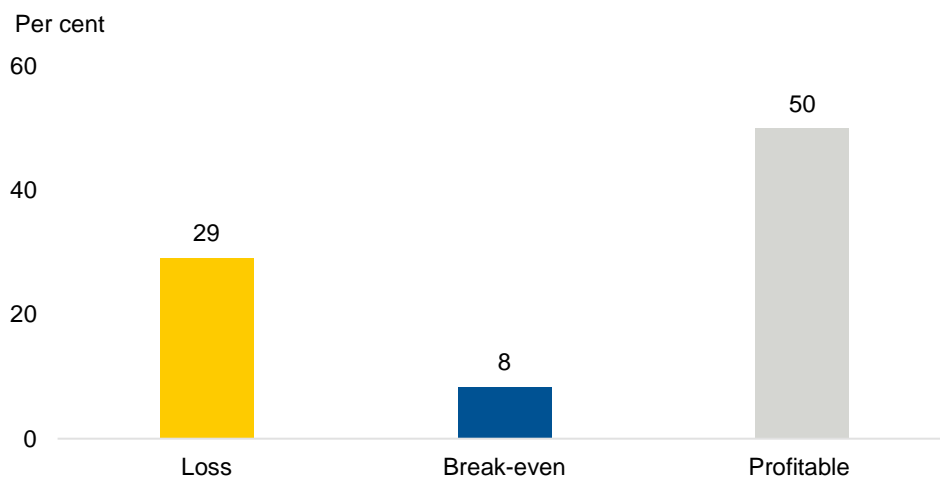
NOTE:  
Mature (<2000)  
Experienced (2001-2015)  
Newcomer (2016-)

# ECONOMIC OUTLOOK

## Despite negative effects of the pandemic, profits in 2020 still achieved

Indonesia is expected to become the eighth largest economy in the world by 2030 – or the fourth largest if purchasing power parity is taken into account. With around 260 million inhabitants, a middle-class expected to increase from 45 to 141 million before 2020, and GDP growth rates of around five to six per cent over the last ten years, Indonesia represents a vast potential for Swedish investors who are prepared to make a longer-term commitment.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN INDONESIA IN 2020?



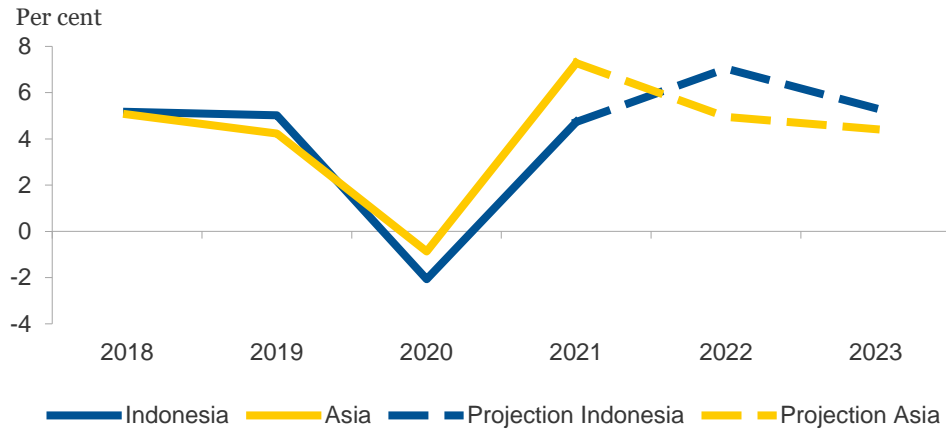
NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

Despite the negative economic consequences of the pandemic, many companies appear to have been able to navigate the situation, with about half of companies reporting profitability in 2020. Looking closer at company size renders a more nuanced picture. Larger companies indicate better profitability than medium-sized or small companies; around 60 per cent of large companies report profitability. In comparison, profitable small companies amount to only 25 per cent.

Similarly, company age appears to have a positive impact on profitability. While around two-thirds of mature companies reported profitability in 2020, newcomers reported losses in one out of three cases.

## PROJECTED GDP GROWTH IN INDONESIA

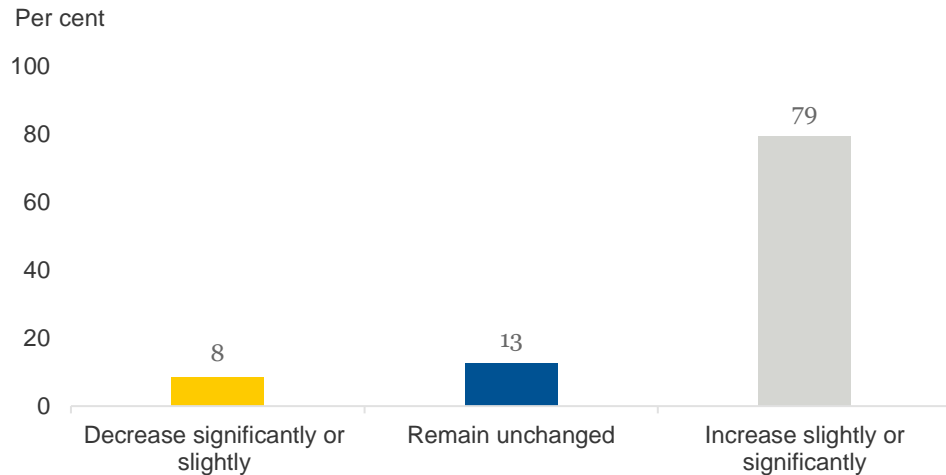


▶ **The Indonesian economy is expected to rebound to above regional growth rate but COVID-19 related risks loom.**

NOTE: Constant prices.  
SOURCE: Oxford Economics 2021-03-31

Like many other countries, Indonesia's economic growth took a hard hit following the pandemic outbreak. After logging positive growth numbers for the last five years, Indonesia fell into its first recession since the 1998 Asian financial crisis. Indonesia's economic growth is expected to rebound in 2021, but the effects of the pandemic continue to dampen economic activities.

## COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN INDONESIA REGARDING TURNOVER?



NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.  
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

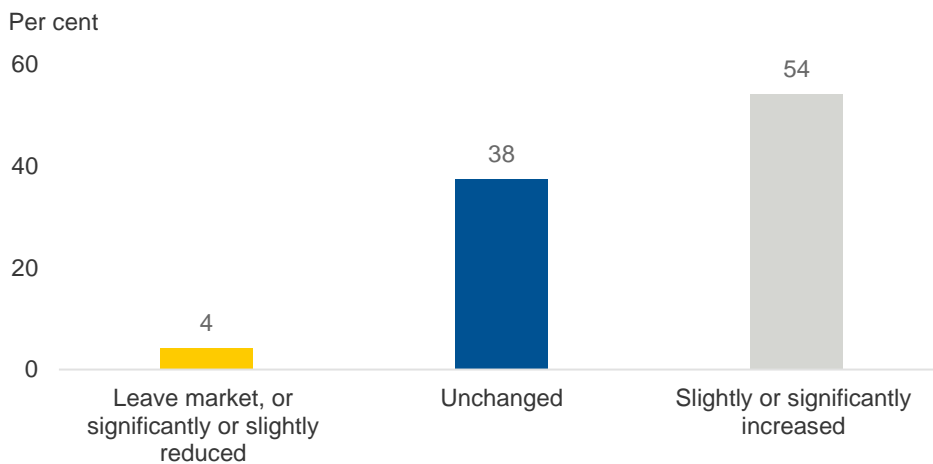
Following the optimistic forecast of the Indonesian economy, the majority of survey participants are optimistic about the future development of company turnover. Out of the 24 companies responding, only about one in five expect their turnover either to "decrease significantly to slightly" or "remain unchanged" in the next 12 months.



## Most Swedish companies will maintain or increase their investments

Fifty-four percent of survey participants declared plans to slightly or significantly increase their investments in the next year. Around two-fifths indicate that their investments will remain at the status quo, while four per cent plan to leave the market or reduce their investment level slightly to significantly.

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN INDONESIA, COMPARED TO THE PAST 12 MONTHS?



NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

# THE MARKET

## Indonesia presents business opportunities

Indonesia has developed a stable democratic system of government and a market-based economy that is relatively open to foreign investment and participation. Indonesia's vast population, projected growth, and position in the top ten largest economies in the world is also home to a huge and growing base of netizens. Indonesia's internet economy is thriving, with an internet economy expected to reach USD133 billion in 2025. A large domestic consumer base and an abundant natural resource wealth is a testament to the potential of Indonesia as a market for international business of various kinds.

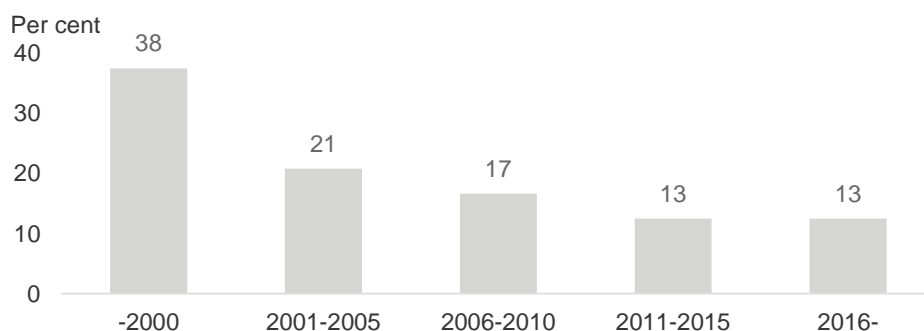
To ensure that the country remains on track, the government of Indonesia has written *National Long-Term Development Plan 2005-2025* which envisioned that the country increase investment in infrastructure, human capital, and science and technology, as well as improve exports and develop Indonesia's competitive advantages. This investment plan indicates opportunities and demand for better products and solutions.

In October 2020, the Indonesian government passed the Omnibus Bill on Job Creation, a comprehensive reform law designed to address over-regulation, in part by streamlining the country's complex regulatory environment. The bill also seeks to strengthen the economy by increasing competitiveness and creating more jobs.

## Swedish company establishments in Indonesia

Most of our respondents have been active in the Indonesian market since before 2001. Thirty-eight percent of respondents are classified as mature (established before 2001) and are typically of medium-to-large size, half of all companies are classified as experienced (established between 2001 and 2015), and 13 per cent are newcomers (established after 2015). While Swedish companies present in Indonesia the longest are typically large industrial actors, the last year witnessed an inflow of medium- and small-sized companies focusing on the consumer and professional services market.

IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN INDONESIA?

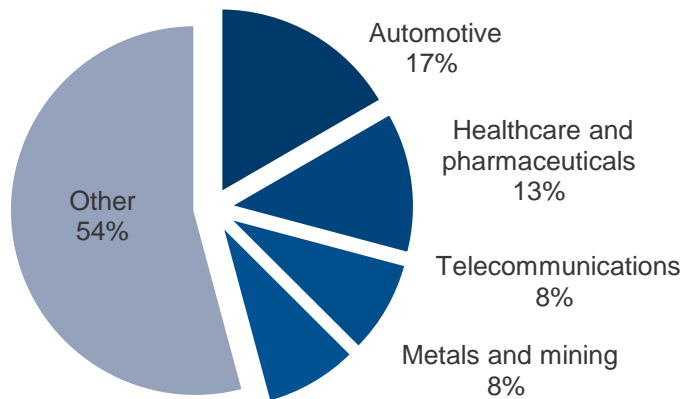


NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

There is at least one company active in 14 of the 20 pre-defined industry options in the survey, demonstrating that Swedish companies in Indonesia are active in a wide range of industries. Automotive identified as one of the main sectors of established Swedish companies in Indonesia, with healthcare and pharmaceuticals, telecommunications, and metals and mining following behind.

#### WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN INDONESIA?

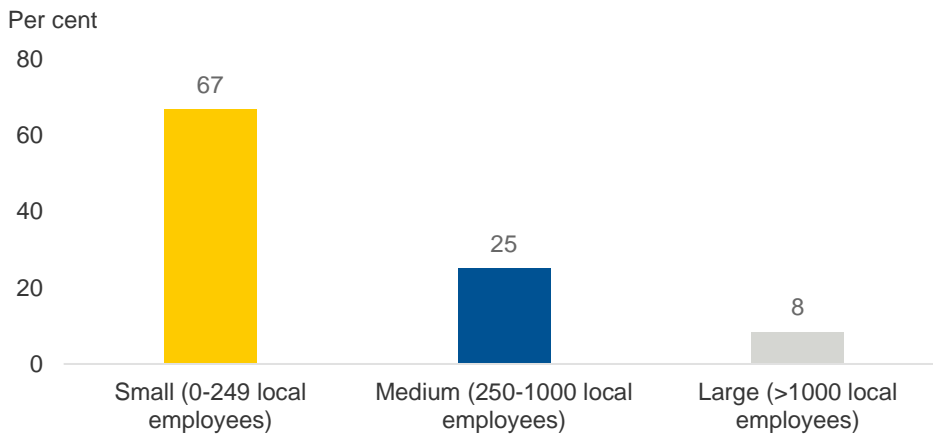


NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

The participating Swedish companies in this survey are primarily small-sized companies with less than 250 local employees. Only 25 per cent of the respondents are medium-sized companies, and the remaining eight percent are from large companies.

#### SWEDISH FIRMS' LOCAL NUMBER OF EMPLOYEES IN INDONESIA IN 2021



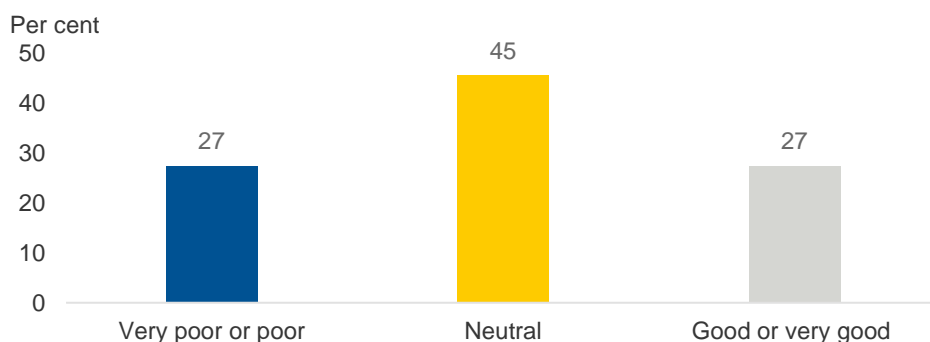
NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

## Swedish companies perceive business climate in Indonesia as neutral

When asked how they rate the business climate in Indonesia, a little less than half of Swedish companies are neutral. Optimistic or pessimistic attitudes to the business climate are equally shared among Swedish companies. Though the Indonesian government has taken steps to improve the business climate, some Swedish companies note that further work is needed, for instance, to increase the consistency of new regulations that are being implemented. One company suggests that the Indonesian government should prioritise a simplification of investments.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN INDONESIA?



NOTE: The number of respondents for this question was 22. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

## Business conditions in Indonesia in general satisfactory but can be improved

Several factors determine the ability of the business environment to support company success. We asked Swedish companies to evaluate how business conditions in Indonesia meet their needs across a number of aspects. From the responses, we learned that the top three conditions Swedish companies appreciate in Indonesia are *personal safety*, *access to service providers*, and *access to distributors*. Other aspects, such as market access, work culture, access to suppliers, and level of digitalisation are deemed satisfactory by Swedish companies.

Work and business culture in Indonesia sometimes present challenges for foreign companies, but with enough time devoted to drilling beneath the surface they can be navigated. Many Indonesians communicate subtly and tend to be less confrontational when communicating a problem; voicing disagreement is made indirectly.



We appreciate the digital system reform, however we believe there are still other areas to improve, such as regulation implementation.

Country Manager  
Swedish Transportation Solutions



Trailing at the bottom of the list are transparency and equal treatment, customs, and licenses, permits and approvals. The Government is addressing some of these concerns, for instance, through digitalising of the procurement of licenses through the INSW (Indonesia National Single Window) system. Yet, the responses suggest that Swedish companies do not find this move alone sufficient.

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN INDONESIA?



NOTE: The number of respondents for this question was 24.  
 SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

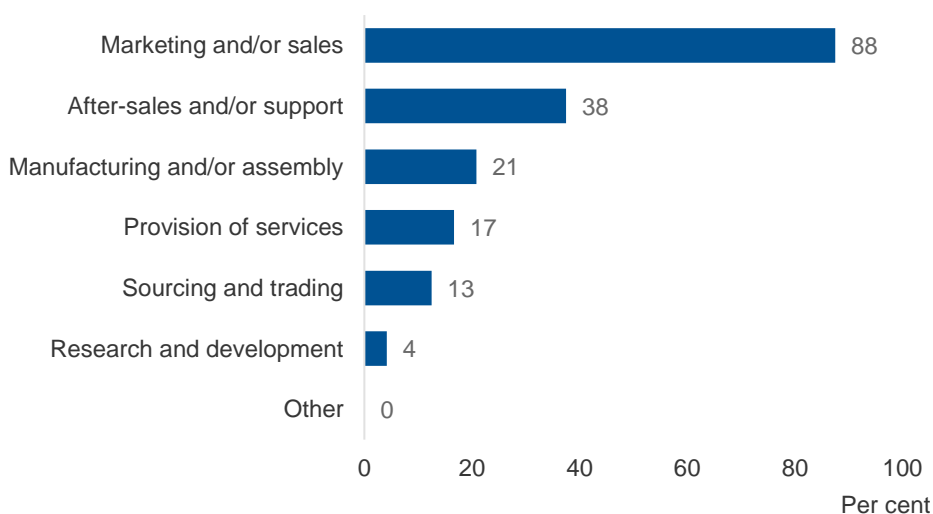
# HOW SWEDISH COMPANIES SUCCEED IN INDONESIA

## A marketing and/or sales office set-up is the most common operational model for Swedish companies

It is common for international companies to test the potential of their targeted market through having a marketing and/or sales setup. After the investment returns or sales have shown consistent and reliable results, companies decide to deepen their investment in the market. It is the same case with our respondents in Indonesia.

Our findings show that most Swedish companies in the survey opt to have a marketing/sales office in the country. The second most common form of operations is after-sales and/or support – this is a typical way for Swedish companies to support an appointed domestic company that acts as the distributor of products and services.

### OPERATIONS OF SWEDISH FIRMS IN THE MARKET



NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.

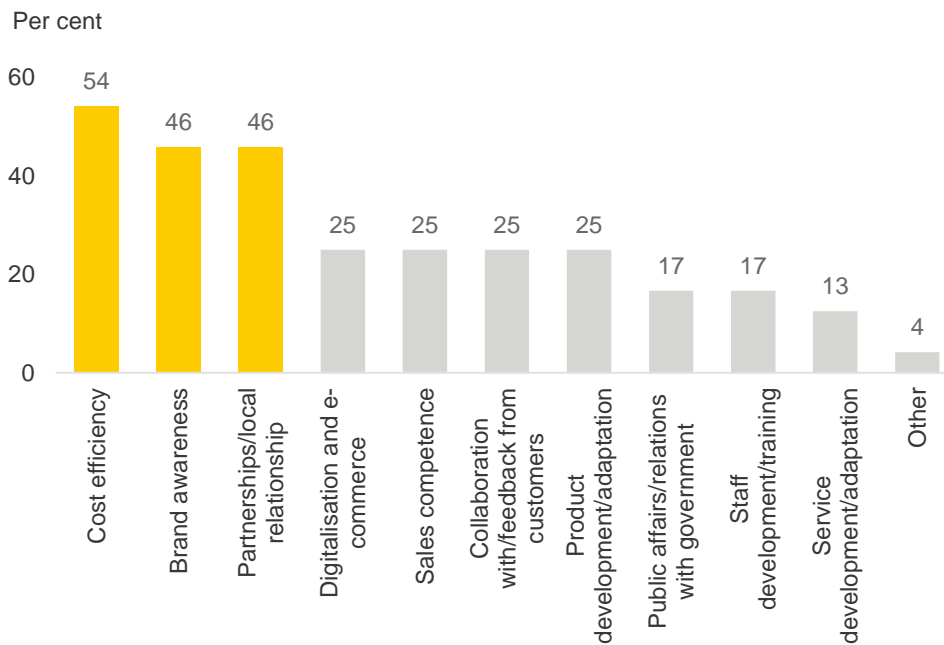
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

# Competitiveness driven by cost efficiency

The survey identifies ten areas that contribute to the competitiveness of Swedish companies in Indonesia. The top three areas critical to maintaining competitiveness are *cost efficiency*, *brand awareness*, and *partnerships*. Cost efficiency rose as the most important area for competitiveness is due in part of the client's priorities. To win the Indonesian customer, Swedish companies must find the balance between the value that the customer perceived as valuable with cost efficiency. Some premium companies are able to build an esteemed brand that allows them to charge higher than the industry average.

The study shows that cost efficiency is the most important area for medium- and large-sized companies, while small-sized companies find that establishing partnerships/local relationships is the most important.

## TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN INDONESIA?



NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.

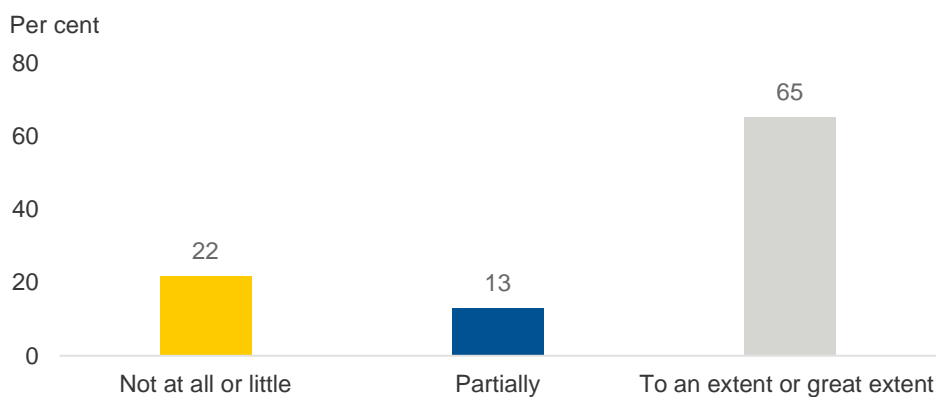
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

## Sweden’s reputational benefits a positive for Swedish companies

Sweden has a strong reputation for aspects such as gender equality, human rights, and innovation. In 2019, the country was named as the world’s most reputable country by Reputation Institute for the second year in a row. The strong reputation that Sweden has, comes across as appealing and trustworthy, which in return gives Swedish companies across international markets a positive value.

Sixty-five percent of Swedish companies reported that being viewed as a Swedish brand contributes “to an extent” or “to a great extent”. Mature companies (and newcomers most highly regard the value of the Swedish brand for their businesses, reporting either contribution “to an extent” or “to a great extent” at 75 and 67 per cent respectively.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE “SWEDISH BRAND” CONTRIBUTES TO YOUR BUSINESS IN INDONESIA?



NOTE: The number of respondents for this question was 23. “Don’t know/Not applicable” responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021



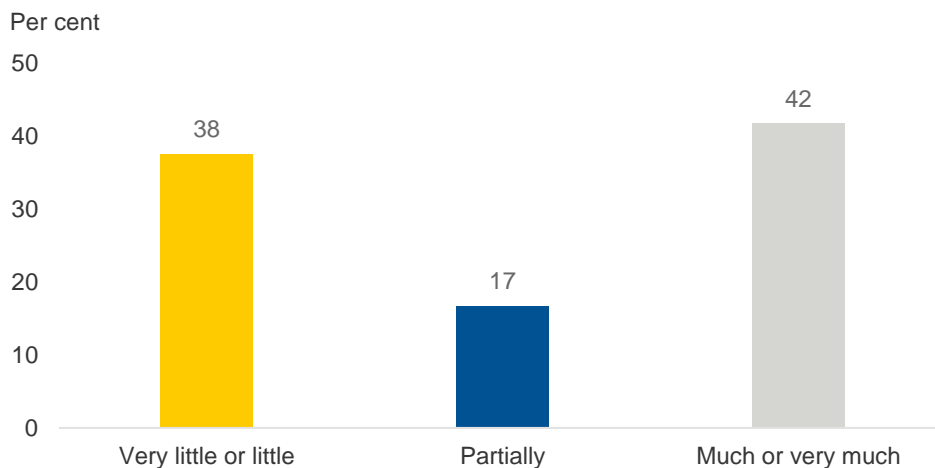
# ACTING SUSTAINABLY

## Corruption remains a challenge in Indonesia

Indonesia is the largest market in Southeast Asia with promising economic development, yet the image is tarnished by corruption, bribery, and money laundering activities - in both the public and private sectors. When asked whether corruption affects their business practices in Indonesia, 42 per cent of Swedish companies reported that corruption affects their business much or very much, while thirty-eight percent of respondents find that corruption affects their business either little or very little.

▶ **Progress towards eradicating corruption faces challenge.**

TO WHAT EXTENT DO YOU PERCEIVE THAT CORRUPTION IN INDONESIA AFFECTS YOUR BUSINESS?

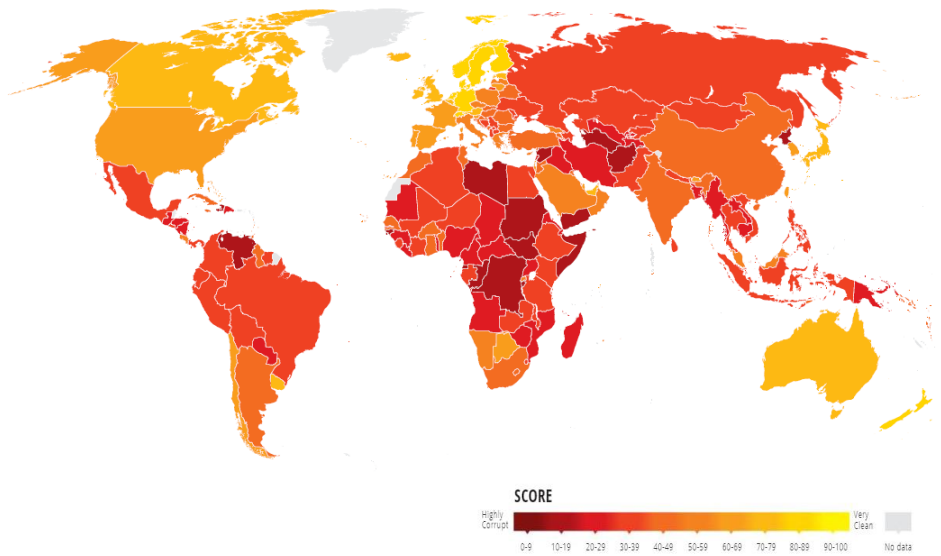


NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.

Ethical business practices are a critical aspect of sustainability, yet eliminating bribery and corruption poses a considerable challenge in Indonesia. Indonesia's results in the Transparency International's 2020 survey indicate that the Corruption Eradication Commission's (KPK) performance and credibility have crumbled during 2020. Ongoing investigations are not progressing quickly enough, and there is a lack of efficiency. There has been a reduction in sting operations and investigations. In 2020, there were only 15 cases that entered the stage of investigation and determination of suspects from the existing 120 cases, while in 2019, KPK handled 62 corruption cases. Another anti-corruption activist, Indonesia Corruption Watch, has also assessed that KPK is getting slower in developing cases and dismantling the actors behind corruption cases. Additionally, the professionalism of the KPK is also considered flawed. Despite these bleak precursors, there reasons for optimism remain. Media and grassroots activism are putting increasing pressure on the Government to provide results in the battle against corruption in a first bid by restoring KPK's power and authority.

CORRUPTION PERCEPTION INDEX 2020

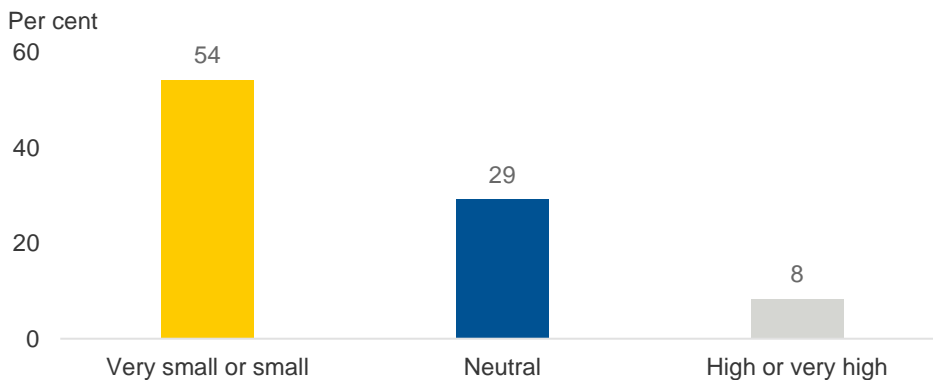


SOURCE: Transparency International.

## Low perceived risk of violations against human labour rights

When it comes to human rights, slightly over half of the respondents report a “very small or small risk” to encounter human rights violations and/or labour rights abuses when conducting business in Indonesia. No companies participating in the survey perceive an elevated risk of human rights violations in their operating their businesses.

HOW DO YOU PERCEIVE THE RISK OF ENCOUNTERING HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS ABUSES WHEN CONDUCTING BUSINESS IN INDONESIA?



NOTE: The number of respondents for this question was 24. “Don’t know/Not applicable” responses are included but not shown in figure.  
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.



It is imperative that corporations take the first step to draft sound policies which respect the human rights of all individuals involved in business.

Marina Berg  
Ambassador of Sweden to Indonesia



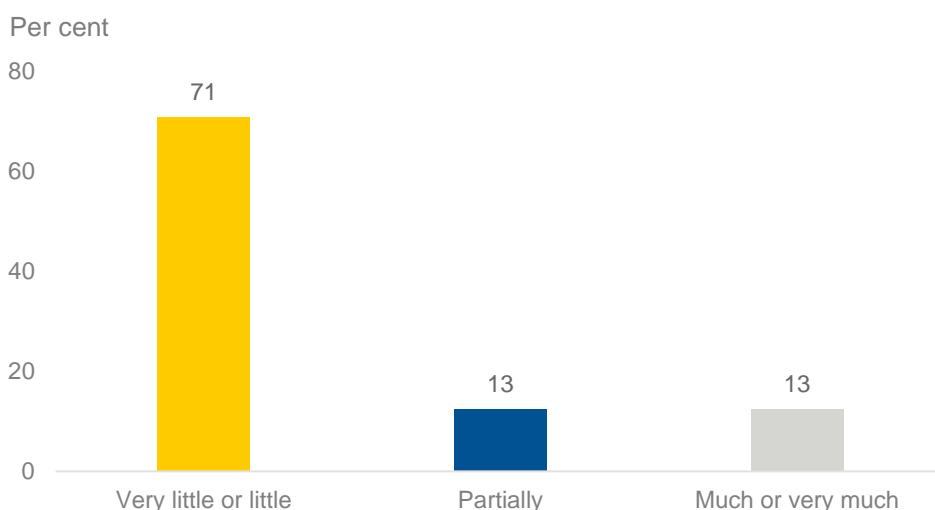
Despite the low figures, in a recent interview with Ambassador Marina Berg, she expressed how corporations need to proactively take the first action to draft sound policies that respect human rights. Furthermore, Team Sweden in Indonesia has actively supported the Government of Indonesia and UNDP in encouraging due diligence and advocating for responsible business and human rights practices. This joint support is also aligned with Indonesia's plan to launch the National Strategy on Business and Human Rights later this year.

## Purchasing decisions not guided by environmental concerns

A study by the Hakuhodo Institute of Life and Living ASEAN (HILL ASEAN) in 2019 found out that Indonesian consumers are leaning more and more toward a "conscious lifestyle" and starting to show a preference for socially conscious brands. The same result is also shown by a study by Tetra Pak in the same year, stating that Indonesian consumers considered a healthy lifestyle important and agreed on the need to live in a way that has a minimal environmental impact.

However, it seems that the environmental consciousness is still at an awareness level and has not significantly translated into changed purchasing habits. Swedish companies operating in Indonesia find that when their customers are making purchasing decisions, they are unlikely to be motivated by concern for the environment. Over 70 per cent of respondents report that their customers consider environmental aspects of a product or service in their purchasing decision either little or very little. In comparison, only 13% consider it either much or very much.

IN YOUR VIEW, TO WHAT EXTENT DO CUSTOMERS IN YOUR INDUSTRY IN INDONESIA CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?



NOTE: The number of respondents for this question was 24. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2021.



# Team Sweden

