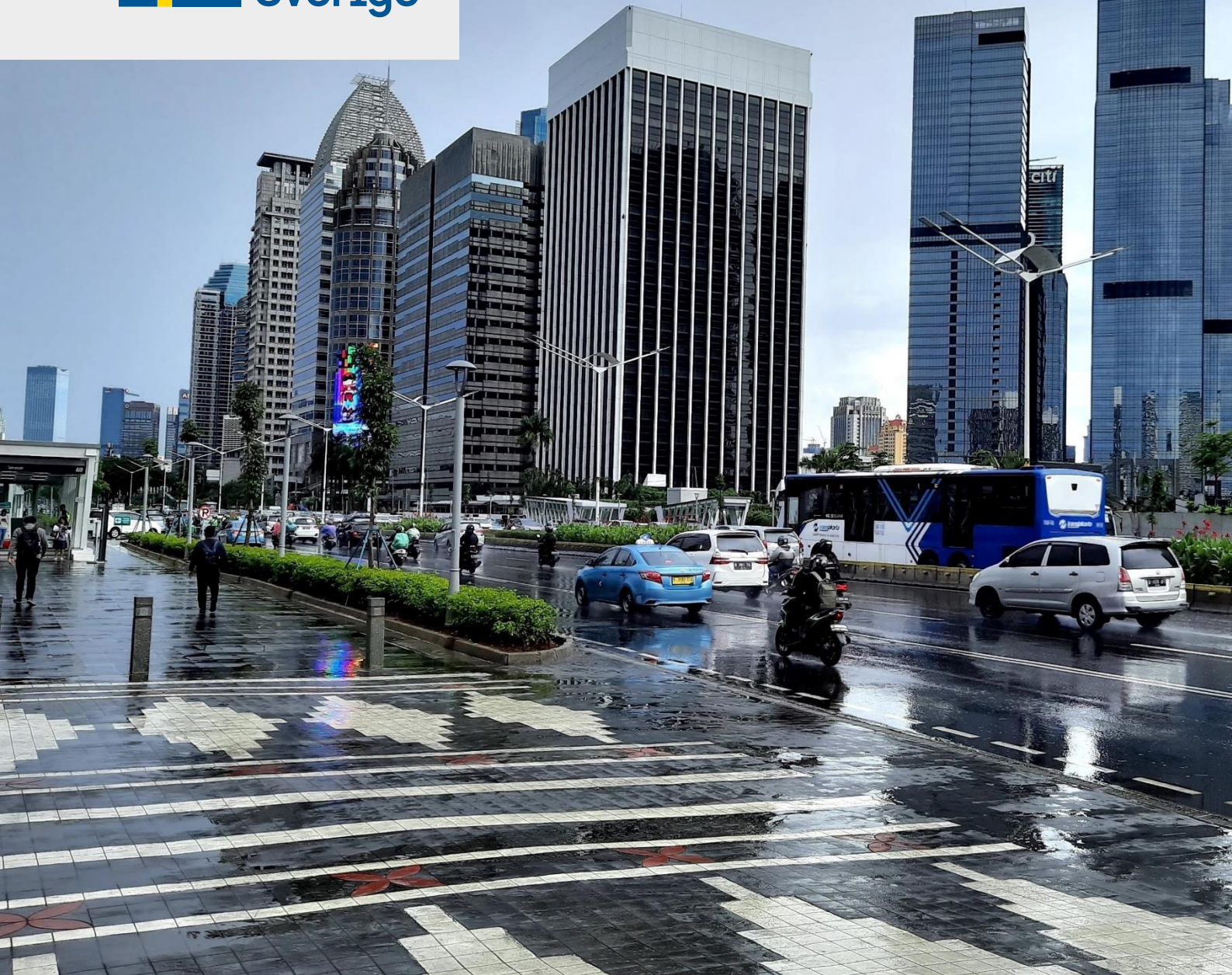




Sweden
Sverige



BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN INDONESIA 2023

A REPORT FROM TEAM SWEDEN IN INDONESIA

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KEY CONTRIBUTORS TO THIS REPORT

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+1,400 respondents **22** markets

Current business climate

Positive view on the current global business climate is on the rise

Industry turnover

74%

of Swedish companies expect their industry turnover to increase

Future investments

50%

of Swedish companies plan to increase their investments slightly or significantly in the next 12 months

Globally valued success factors

1. Sales competence
2. Cost efficiency
3. Partnerships and local relationships

Brand Sweden

62%

of Swedish companies abroad consider the Swedish brand to be beneficial for business

Local conditions with high satisfaction

1. Personal safety
2. Infrastructure
3. Service providers

Local conditions with least satisfaction

1. Labour market regulations
2. Corporate tax
3. Licenses and permits

Environmental considerations

36%

of respondents believe the environment is a considerable factor in their customers' purchasing decisions

Corruption

- Moderate to high risk in emerging markets and South Korea
- Low risk in advanced economies

Human rights violation and labour rights abuse

- Moderate risk in emerging markets
- Low risk in advanced economies

FOREWORD

Indonesia's economy has continued to enjoy a strong recovery after it was severely hit during the Covid-19 pandemic of 2020 and 2021. In 2022, it managed to obtain a respectable growth rate of 5,2 per cent, higher than several other regional powerhouses such as China and Thailand. Furthermore, this year Indonesia has managed to regain the upper-middle income country status from the World Bank. These indicators can be considered as positive signs for the country's future economic outlook.

The economic recovery is also reflected in commercial relationships between Sweden and Indonesia. Bilateral trade between both countries reached USD 873 million USD in 2022, up nine per cent from USD 802 million in 2021.

The Swedish and Indonesian governments are actively working to further develop their economic relationships. Since 2020, a collaboration programme called the Sweden-Indonesia Sustainability Partnership (SISP) launched as a platform for collaboration to allow for more sustainable approaches to develop within various economic sectors. Through the SISP programme, Team Sweden is working with the government and industries to offer funding support, capacity building and innovative technology introductions.

This year, several projects and programs are active in areas such as EV transformation, Industry 4.0, hospital development, green energy transition and sustainable mining. Swedish companies play a very important role in these initiatives as they provide new technologies and solutions to Indonesian businesses and government institutions. Therefore, understanding Swedish firms' perspectives on the state of the Indonesian business environment is crucial for the success of the programme and for continuing to strengthen the positive economic relationships between the two countries.

The 2023 Business Climate Survey is intended to capture these Swedish companies' insights and experiences into one coherent report, which we hope will be beneficial for Swedish companies that are planning to enter the Indonesian market or are already present and active.

We would like to thank all companies that have committed their time to providing their perspectives through the survey. These insights have been very valuable for us in preparing this report.



Erik Odar
Trade Commissioner
of Sweden to
Indonesia

EXECUTIVE SUMMARY



Report coverage

- **31 (44%)** out of 70 companies invited participated in the survey
- **68%** of the respondents are industrial companies globally



Economic outlook

- Indonesia's economy grew by **5,2** per cent in 2022
- **74%** of the respondents report a stable profitability
- **55%** of the respondents plan to increase investments in the coming 12 months



Market

- **74%** of the respondents value the Indonesian business climate positively
- **Distributors, personal safety, and suppliers** are considered top three aspects the respondents found most favourable in Indonesia



Key success factors

- **Partnerships, cost efficiency and sales competence** are considered top three key success factors for the respondents' operations in Indonesia
- **78%** say that "the Swedish brand" boosts their business



Sustainability

- **45%** of the respondents believe their customers consider the sustainability aspect when deciding which product to purchase, a significant increase compared to the previous year



Push for local manufacturing

- **39%** of respondents that currently do not have a manufacturing function in Indonesia plan to start one
- **75%** of respondents with existing manufacturing capacity in Indonesia have plans to expand it

ABOUT THE SURVEY

Documenting Swedish companies' insights on the Indonesian market

The Business Climate Survey is a global initiative undertaken by Team Sweden across 22 markets all over the world. This tool enables Swedish companies to provide their important insights on their view of each market's business climate as well as corresponding opportunities and challenges throughout the respective markets.

This survey is the fourth edition of the initiative in Indonesia. The data collection was conducted from March to April 2023 through online questionnaires, which were distributed to 70 Swedish companies that are doing business in Indonesia. A total of 31 companies responded to the survey, which represents a response rate of 44 per cent.

Companies participating in the survey are Swedish companies which conduct business in Indonesia ranging from limited sales and sourcing activities to full-scale manufacturing operations. Not all have a physical presence in Indonesia, as some of them manage their Indonesian operations from regional hubs, usually Singapore.

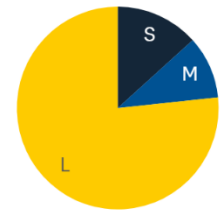
A significant majority (77 per cent) of these companies are large businesses which employ more than 1000 employees globally, while medium-scale businesses (250 – 1000 employees) and small-scale businesses (less than 250 employees) account for 10 per cent and 13 per cent, respectively. Industrial companies are the predominate industry (68 per cent), followed by professional services (24 per cent) and consumer companies (eight per cent). Approximately half of the companies are mature firms, which have been present in Indonesia for 20 years or more, while 32 per cent of the companies are considered experienced. Only 18 per cent of the respondents are considered newcomers.

In order to ensure strategic insights were obtained from the survey, the online questionnaires were sent to senior management personnel within the companies; president directors, country managers, or other high-ranking positions based in Indonesia. However, for companies which do not possess a residential office in Indonesia, equivalent positions based in regional hubs (for example Area Sales Manager for Asia-Pacific based in Singapore) were contacted.

This report is divided into six different sections. The first section documents the respondents' view regarding their financial performances and their expectation regarding their business turnover and investment this year. This is followed by a section describing their perspective on Indonesian business climate and factors that influence it. The third section discusses key factors that drive their success in the Indonesian market, while the fourth section elaborates how the companies perceive sustainability, corruption prevention and human rights issues in Indonesia.

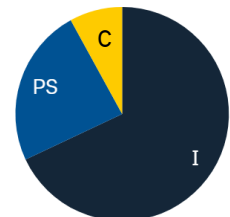
It is immediately followed by the fifth section, which provides a snapshot regarding how the respondents react to the Indonesian government's push for foreign companies to localise manufacturing in Indonesia. Lastly, the sixth section elaborates the Sweden – Indonesia Sustainability Partnership (SISP) initiative undertaken by Team Sweden in Indonesia to help Indonesia in its sustainability journey as well as promoting Swedish solutions

SIZE OF COMPANIES



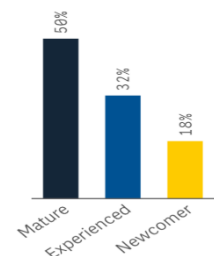
NOTE: Global Employees. Large (L) >1000. Medium (M) 250-1000. Small (S) 0-249

MAIN INDUSTRY



Industrial 68%
Professional services 24%
Consumer 8%

SIZE OF COMPANIES



NOTE:
Mature (-2001)
Experienced (2002-2016)
Newcomer (2017-)

ECONOMIC OUTLOOK

Indonesia is expected to continue the path of economic growth after the Covid-19 pandemic

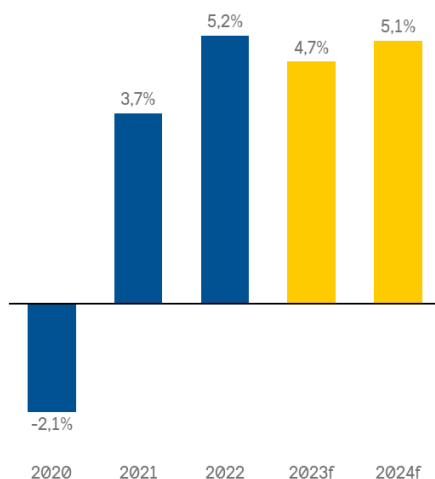
Indonesia has managed to return to a path of healthy economic growth after being hit hard by the Covid-19 pandemic. In 2022, the economy grew 5,2 per cent, a significant improvement from 2021's growth of 3,7 per cent. The substantial growth was driven by the uptick in global commodity prices, such as coal and palm oil, caused by the Russian invasion of Ukraine. Indonesia is considered among the top exporter of thermal coal and crude palm oil (CPO) in the world.

In 2023, the Organisation for Economic Co-operation and Development (OECD) predicts that the economic growth will slow down to 4,7 per cent, and in 2024, it is predicted to increase again to 5,1 per cent. The predicted growth decline in 2023 is driven by the fall in commodity prices which have driven up the economic growth in 2022. For example, the price of CPO has declined to USD 816 per metric tonne in June 2023, a steep decline from the March 2022 price of USD 1,780. The price of coal also experienced a massive fall, from USD 431 per tonne in September 2022 to USD 139 per tonne in June 2023. These significant price drops result in reduced value of Indonesian economic output and export.

In addition, Indonesia will hold a general election in February 2024. Based on previous experience, economic growth normally slows down two quarters prior to the election being held, as businesses keep a careful attitude on massive investment and other strategic decisions due to uncertainties in changes to policies and regulations with a new administration. Similarly, government agencies also tend to reduce disbursement, as a new government may change political priorities.

The Indonesian government continues to invest significantly in infrastructure development, including the Nusantara new capital project in East Kalimantan and various major toll road projects across the archipelago, such as the Trans Sumatra toll road. These massive investments are expected to generate significant economic benefits and contribute to the long-term GDP growth.

ACTUAL AND PROJECTED GDP GROWTH IN INDONESIA, 2021 - 25



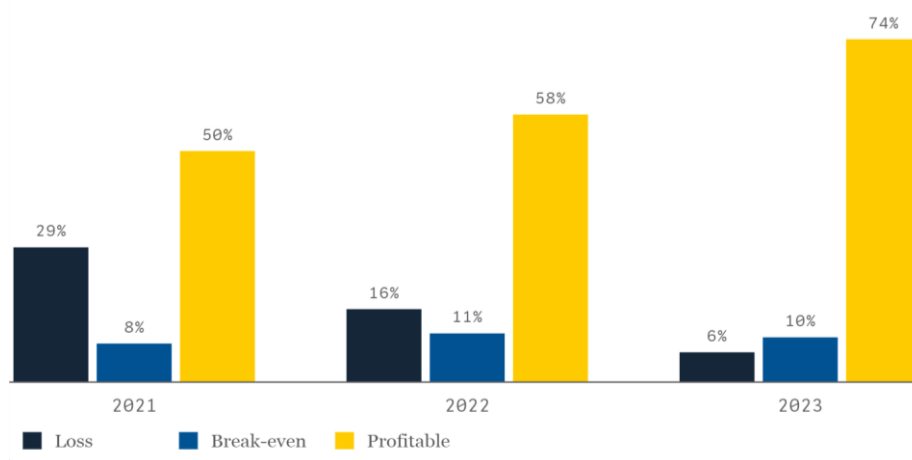
NOTE: Constant prices. "f"s after year numbers denote forecast.
SOURCE: IMF, OECD

Increasing number of respondents report profitability in their Indonesian operations

Majority of companies (74 per cent) participating in our survey indicate that they are currently operating at a profit. This represents a significant increase from last year's result of 58 per cent and 2021's result of 50 per cent.

On the opposite side, the per centage of companies reporting loss in their operation have declined significantly over the past two years, from 29 per cent in 2021 to mere six per cent in 2023.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN INDONESIA IN 2023?

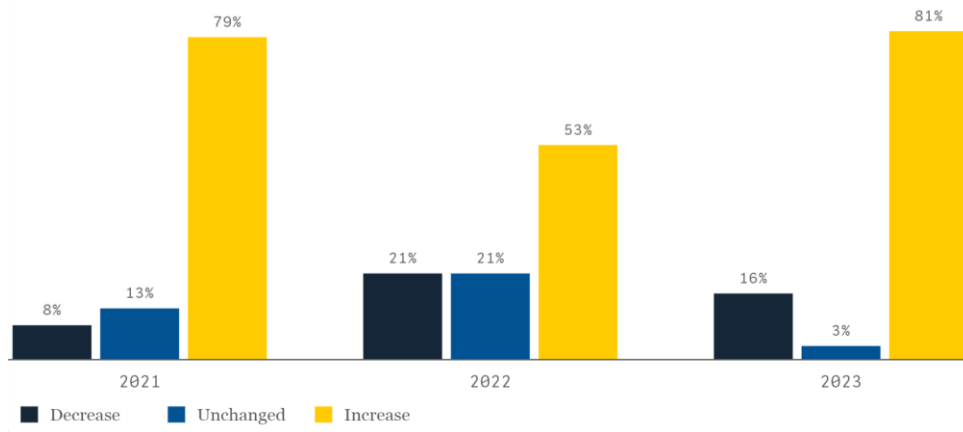


NOTE: The number of respondents for this question was 31. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

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?

Compared to the previous year, the percentage of respondents expecting an increase in turnover over the next 12 months after the survey period (March to April 2023) has risen significantly. 81 per cent of respondents expect a rise in turnover, as opposed to 53 per cent in 2022. This significant increase is an indication of trust given by Swedish companies in the recovery of the Indonesian economy in a post-Covid-19 era.



NOTE: The number of respondents for this question was 31. "Don't know/Not applicable" responses are included but not shown in figure.

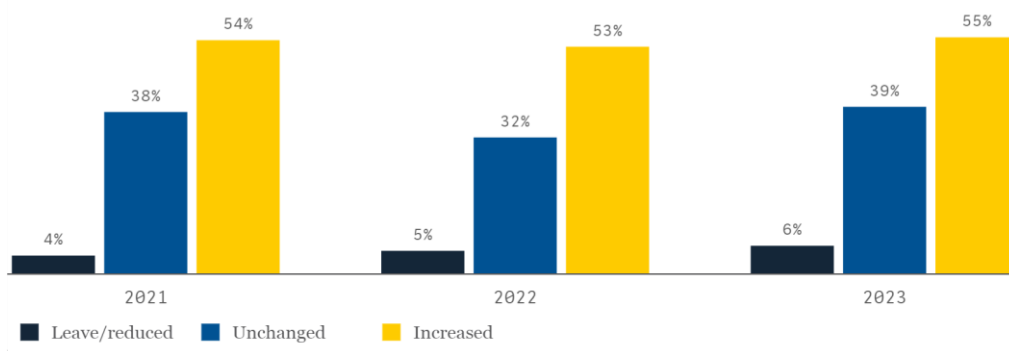
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

Majority of the respondents are still bullish on investing in Indonesia

Similar to the survey result from last two years, majority of respondents express a positive sentiment on investing more in the country for the coming 12 months after the survey period (March to April 2023). In fact, the result shows a very small change over the years, with 55 per cent of respondents indicating their plan to increase investment, compared to 53 per cent in 2022 and 54 per cent in 2021.

The intention of respondents to increase investment in the country is a good indication of optimism expressed by Swedish companies in the Indonesian economy.

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 31. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

THE MARKET

Swedish commercial relationships with Indonesia continue to develop in a positive way

Commercial relationships between Indonesia and Sweden continue to develop in a positive direction. Bilateral trade between the two countries have continued to increase as both economies recover from the effect of Covid-19 pandemic. The total trade relationship between Indonesia and Sweden reached USD 873 million in 2022, which represented a nine per cent increase from the 2021 value of USD 802 million.

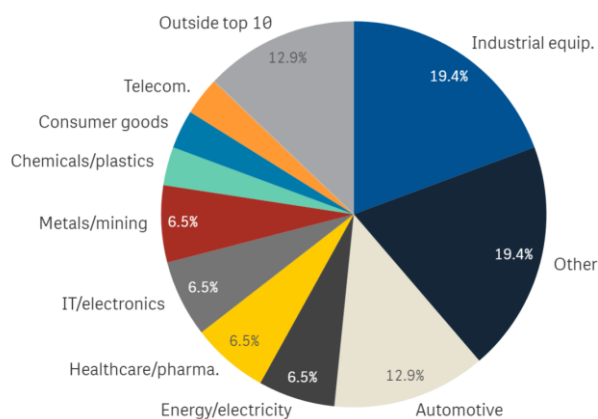
From the 2022 value of USD 873 million, approximately 71 per cent (USD 620 million) come from the Indonesian import from Sweden. This import value represents an 11 per cent increase from 2021's import value of USD 560 million. According to the data from Statistics Sweden, Swedish export to Indonesia is dominated by road vehicles, industrial machinery, as well as pulp and paper products.

The increasing value of Indonesian import from Sweden provides an indication of significant demand from Indonesian companies on Swedish solutions, particularly high value industrial products such as road vehicles and industrial machines. This is a positive sign for Swedish companies in this sector which currently do not have a physical presence in Indonesia to invest in the Indonesian market.

On the Indonesian side, the government continues to court foreign investment in Indonesia through initiatives such as Omnibus Law, a set of law designed to attract investment and create jobs by streamlining business regulations, which was enacted in October 2020. The government also designates 20 Special Economic Zones (SEZ) across the country, which are designed to attract overseas-based companies through various fiscal and non-fiscal incentives. In addition, government megaprojects such as the Nusantara new capital city and various toll road, seaport, and airport projects are also open for investment from abroad.

There is an indication that these policies have attracted the interests of Swedish companies to invest in Indonesia. In 2022, the value of incoming Swedish investment to Indonesia reached USD 59,3 million, more than five times the 2021 investment value of USD 9,2 million. This is a very positive sign for the commercial relationship between Sweden and Indonesia.

WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN INDONESIA?

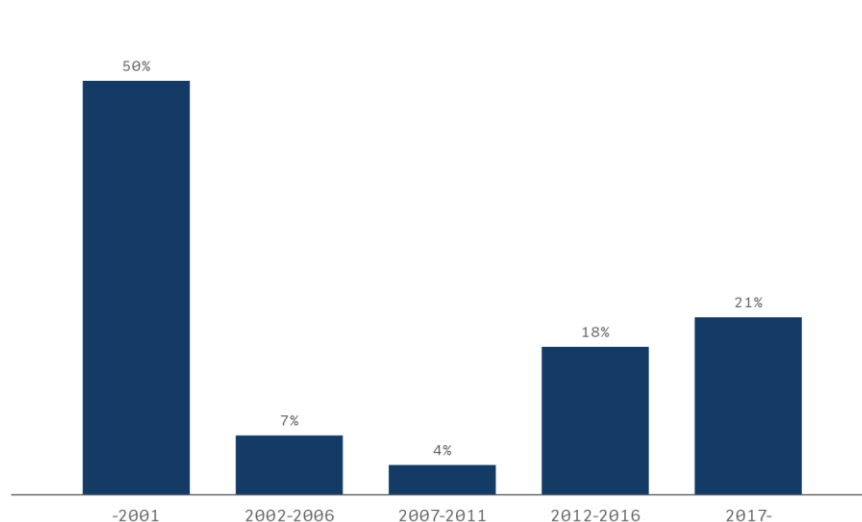


NOTE: The number of respondents for this question was 31. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

There is a high level of diversity in terms of industrial sector focus of Swedish companies on our survey. The most common sectors identified are industrial equipment (19 per cent) and automotive (13 per cent). This information is consistent with the trade balance data which mentions that industrial equipment and road vehicle products are the largest Swedish export to Indonesia in terms of value and reflects the strength of Swedish world-class industrial equipment and transportation solutions in the market.

IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN INDONESIA?

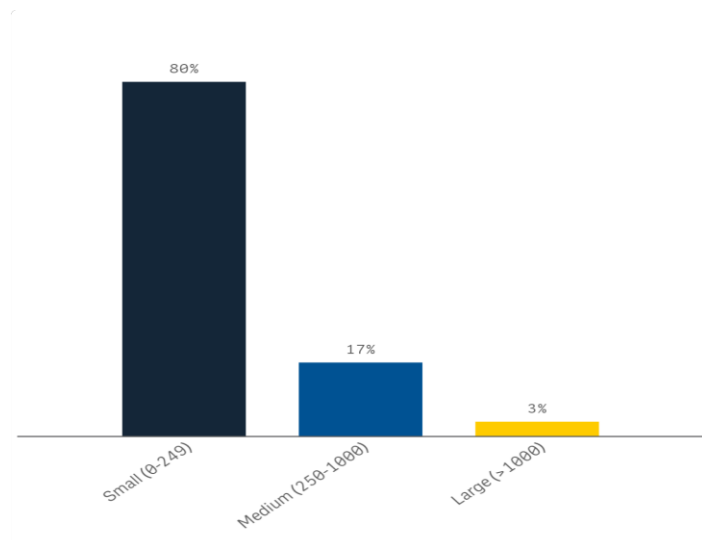


NOTE: The number of respondents for this question was 31. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

Majority (61 per cent) of Swedish firms responding to our survey this year have been operating in Indonesia more than ten years. This indicates that Swedish businesses in general have a strong intention to operate in the country for a long time. However, there are also some (21 per cent) newcomer companies in the market.

SWEDISH FIRMS' LOCAL NUMBER OF EMPLOYEES IN INDONESIA IN 2023



NOTE: The number of respondents for this question was 31. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

A vast majority (80 per cent) of Swedish companies in the survey are relatively small with less than 249 employees. Companies with 250 employees or more are firms with manufacturing facilities, which are not common in Indonesia.

Respondents perceive the current business climate in Indonesia positively

Majority (61 per cent) of Swedish companies responding to the 2023 survey perceive the current Indonesian business climate in a positive manner. This provides a significant contrast to the result of 2021 and 2022 surveys, in which less than 50 per cent of respondents perceived the business climate of those years as positive. The decline of negative perception is also noticeable, from 27 per cent in 2021 to mere three per cent in 2023.

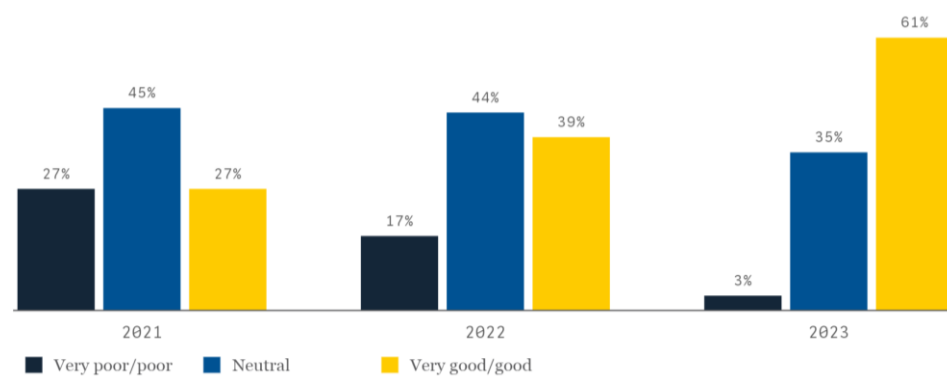
The remarkable positive change in Swedish companies' perception of the Indonesian business climate might be driven by the recovery of the Indonesian economy from the Covid-19 pandemic and its corresponding restrictions to business activities. From early to mid-2021, Indonesia implemented a *cordon sanitaire* policy called PPKM (*Pemberlakuan Pembatasan Kegiatan Masyarakat*, in English: Community Activities Restriction Measures) to handle the spread of the Covid-19 pandemic. The measures loosened after that, however, the economy recovered slowly as supply chains needed some time to recuperate due to temporary/permanent suspension of many businesses during the pandemic. As Indonesian and global companies at last returned to full capacity this year, business climate in the country improved dramatically.

Furthermore, this change in attitude can also be perceived as a positive indicator from the foreign business community regarding the continuing implementation of the Omnibus Law, which was enacted at the end of October 2020.

“Indonesia is so far one of the few markets in the region...that still has a high level of activity, in many other markets business is declining somewhat compared to last year.”

Managing Director
An automotive company

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN INDONESIA?



NOTE: The number of respondents for this question was 31. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

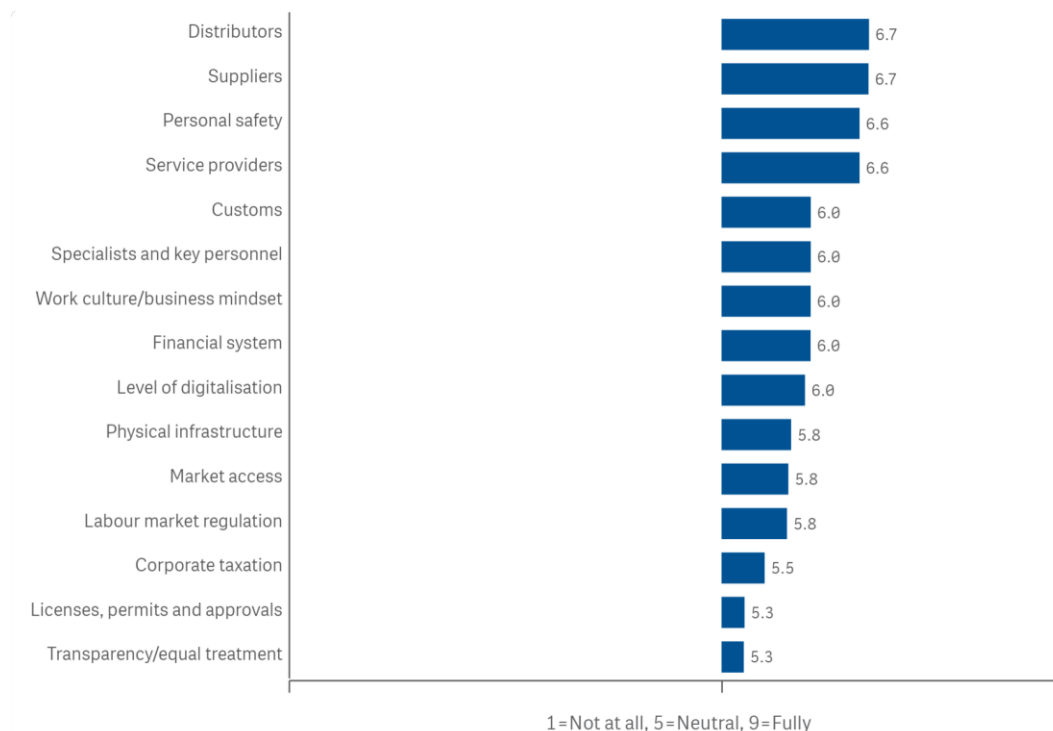
Indonesian distributors, suppliers, and service providers are highly rated by the respondents, including within the field of personal safety

In general, Swedish companies participating in our survey tend to express a relatively neutral opinion on conditions influencing their business in Indonesia. However, they highlighted above average performance of services given by distributors, suppliers, and service providers in Indonesia to their businesses. Similar to last year, personal safety is also positively rated by the survey respondents.

Overall, this scoring represented a marked increase from the result of last year's survey. While last year identified several factors (8 out of 16) with below "neutral" threshold of five, this year all 15 factors evaluated attained score above five. Furthermore, there are significant score increases in the top four factors. Last year the score range for top four factors was between 5,6 to 6,1, while this year it ranged between 6,6 to 6,7.

This provides indication that the business supporting ecosystem in Indonesia has improved compared to last year. Similar to the significant improvement in Swedish companies' perception on overall Indonesian business climate, these improvements might be driven by the continuing recovery of the national economy together with all its stakeholders from Covid-19 pandemic, which allows stakeholders of the economy to restart their normal business operations.

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



NOTE: The number of respondents for this question was 31.
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

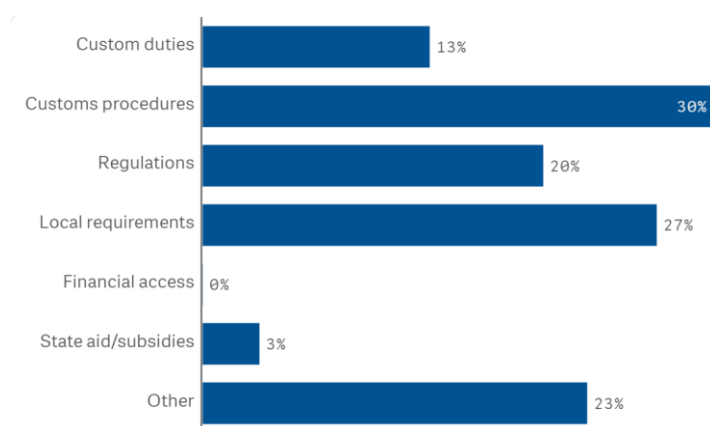
Customs procedures and local content requirements are trade barriers with most adverse impact according to the respondents

Complicated customs procedures, increasingly stringent local content requirements, and cumbersome regulations are identified as main factors that impede the respondents' operations in Indonesia. These three factors were also identified as the main barriers during the last year's survey.

Nevertheless, there is a noticeable decrease in the percentage of respondents indicating the presence of trade barriers. Last year, the top three barriers identified were customs procedures (56 per cent), regulations (50 per cent), and local requirements (44 per cent). However, this year the top three barriers have much lower percentages: customs procedures (30 per cent), local requirement (27 per cent), and regulations (20 per cent).

There are some concerns identified among Swedish businesses with regard to difficulties in acquiring steel products, particularly for companies which do not engage in manufacturing activities in the country. These restrictions are driven by the Indonesian government's intention to limit wholesale import of products which have been made domestically, in order to encourage the growth of domestic manufacturing and reduce the burden on national trade balance.

HAS YOUR COMPANY IN THE PAST YEAR ENCOUNTERED TRADE BARRIERS IN INDONESIA WITH A NOTICEABLY NEGATIVE IMPACT ON OPERATIONS, IN ANY OF THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 30.
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

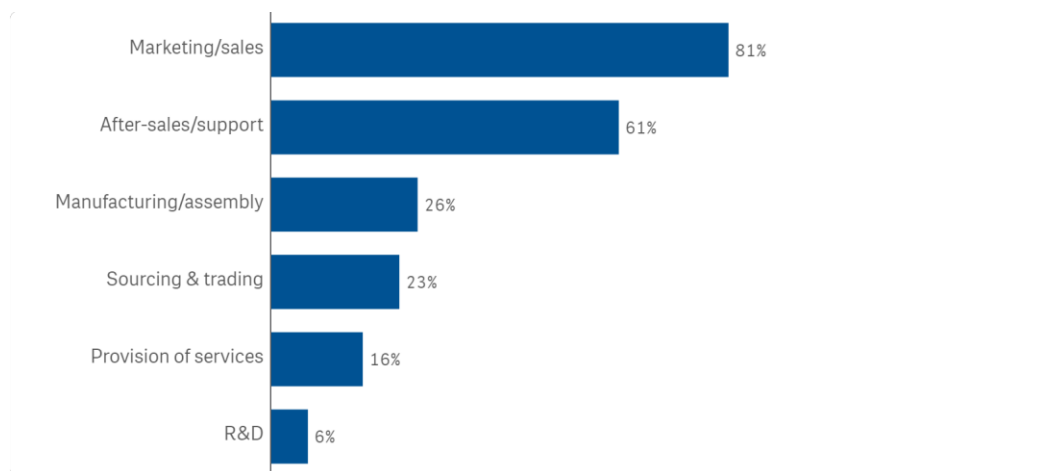
HOW SWEDISH COMPANIES SUCCEED IN INDONESIA

Marketing and aftersales activities still become the main focus of Swedish companies

Similar to last year's survey, the most common business activities undertaken by the respondents are marketing and sales (81 per cent) and aftersales support (61 per cent). Marketing and aftersales services are the most common operational functions conducted by international firms, as companies need to reach out effectively to sell products to their potential customers and provide support in case of any question or complaint after sale.

The per centage of respondents which engage in manufacturing activities is increasing from 21 per cent last year to 26 per cent. This is aligned with the continuing push from the Indonesian government for foreign companies to acquire manufacturing capabilities and increase the local content of products sold in Indonesia.

OPERATIONS OF SWEDISH FIRMS IN THE MARKET



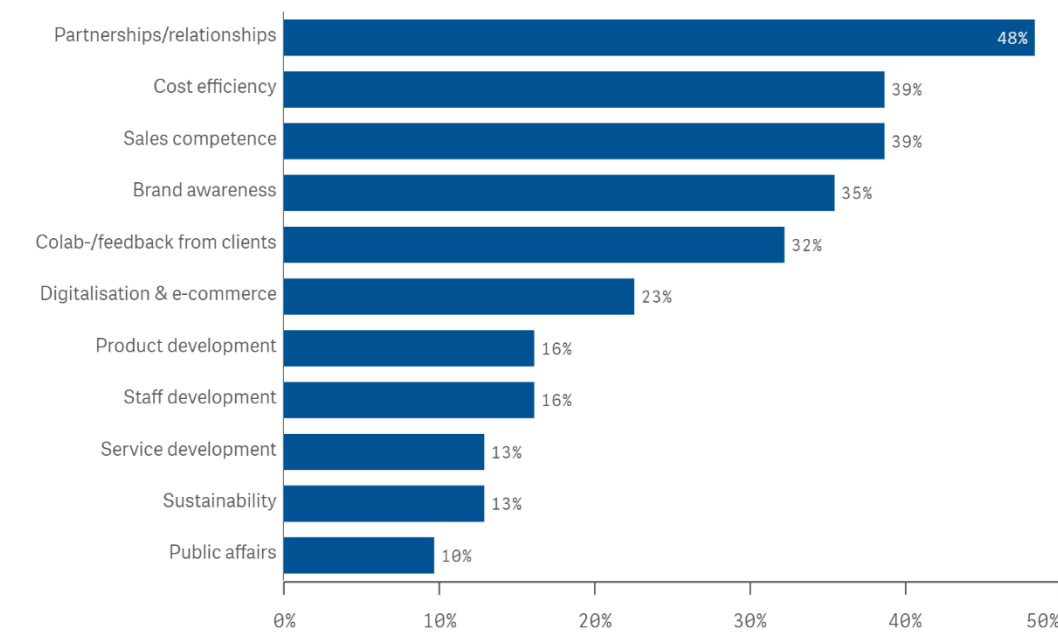
NOTE: The number of respondents for this question was 31. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

Relationships with customers are a key factor in maintaining competitiveness in the market

This survey also identifies various factors that are deemed important for the respondents in maintaining their business competitiveness in Indonesia. Last year, the top three factors selected were *customer feedback*, *brand awareness*, and *sales competence*. However, this year respondents selected *partnerships/relationships* and *cost efficiency* as the top two factors instead, while *sales competence* remained in the third position.

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



NOTE: The number of respondents for this question was 31. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

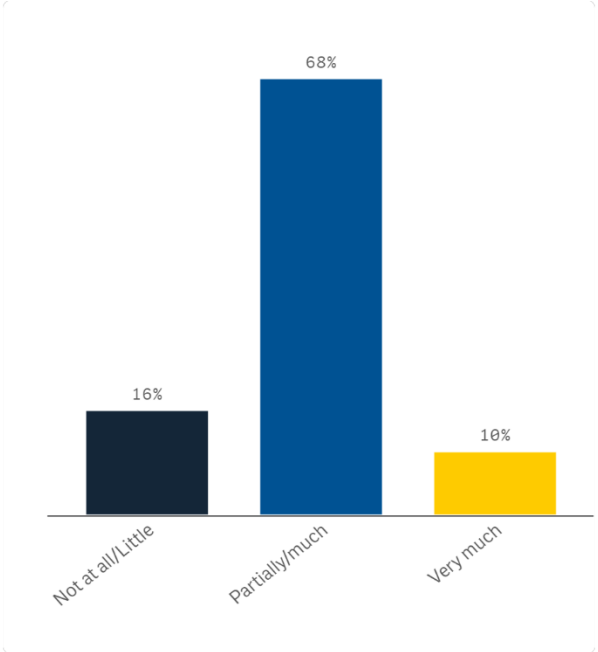
Sweden's positive reputation helps the companies gain respect from the Indonesian customers

A vast majority (78 per cent) of Swedish companies surveyed indicate that they have enjoyed various benefits from the positive image of Sweden in Indonesia. This is consistent with last year's result, in which 79 per cent of firms answered similarly.

In this country, Sweden is renowned for its image as a highly developed Scandinavian country. Swedish consumer goods brands are well regarded among the middle class, partly due to this association in Sweden. For industrial products, Swedish industrial equipment is usually considered high quality products which incentivise premium prices.

However, there is a concern that the recent burnings of the Quran in Sweden can influence Sweden's image in Indonesia adversely, as a vast majority (approximately 85 per cent) of Indonesians are Muslims. In the aftermath of the Quran burning by a right-wing politician Rasmus Paludan in January 2023, around 1 000 people participated in a demonstration in front of the Swedish Embassy in Jakarta condemning the action and the government, which in their opinion did not do enough to stop the burnings. Although the response in Indonesia is relatively muted compared to other Muslim countries, it is not impossible for such events to adversely impact the perspective of Sweden in the eyes of Indonesians.

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 31. “Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

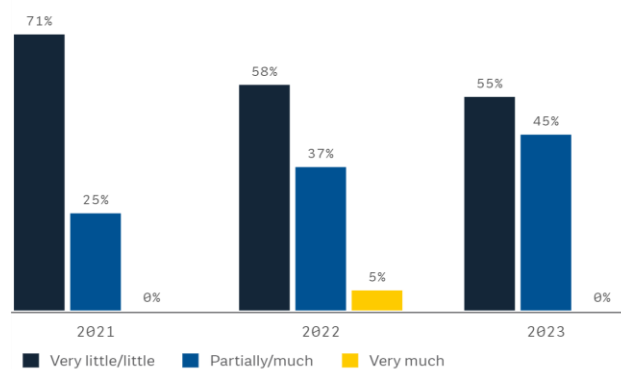
ACTING SUSTAINABLY

Indonesian customers pay little attention to the environmental aspects when deciding to purchase something, although it is changing

In general, Indonesian consumers do not pay strong attention to environmental or sustainability aspects. Majority (55 per cent) of Swedish corporate respondents believe that their customers do not consider these factors as important when deciding which product to purchase. Even so, the percentage of companies answering this way has been declining over the last two years, with 71 per cent and 58 per cent of participating companies in 2021 and 2022, respectively, selecting either “very little” or “little” responses with regard to customers’ consideration towards environmental aspects of a product or service.

On the other side, respondents selecting “partially”, “much”, or “very much” have been growing, from 25 per cent in 2021 to 45 per cent this year. This provides an indication of increasing awareness among Indonesian customers, at least among those which purchase the products from Swedish companies, regarding the importance of acquiring sustainable products.

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



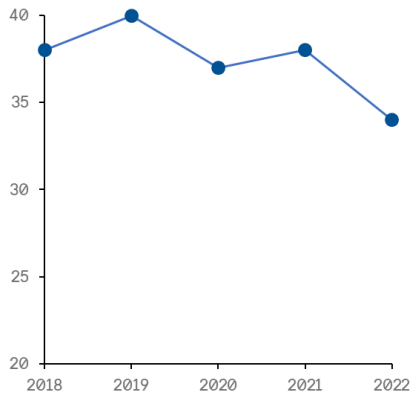
NOTE: The number of respondents for this question was 31.
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

Respondents reported having very limited exposure to corruption during their operations this year

Indonesia is not performing very well in terms of corruption prevention. In 2022, it only managed to attain the 110th rank out of 180 countries with the index score of 34 on 2022 Corruption Perceptions Index, which measures how experts and members of the public perceives the level of corruption in the country. This represents a substantial decline from 2021’s achievement, where the country managed to attain the 96th rank with the index score of 38. In terms of index score, this is the largest decline since 1995.

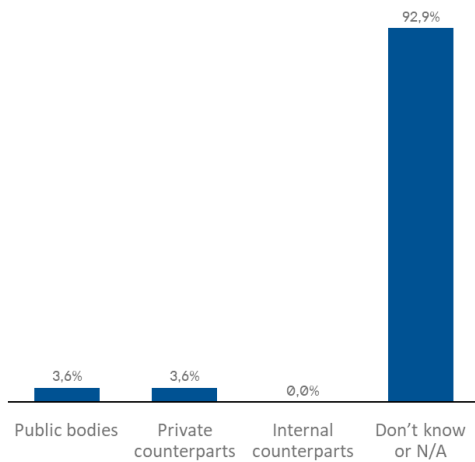
However, only a very small percentage of the survey respondents have reported attempts of bribery or fraud when doing business in Indonesia. A mere three per cent of the respondents were exposed to corruption when dealing with public bodies, while another three per cent experienced it when dealing with private counterparts. The limited exposure to corruption experienced by respondents might have been caused by the reputation of Swedish companies as having a zero-tolerance policy on corruption and strong internal control, which dissuade unscrupulous parties to try to engage in fraudulent activities with these firms.

CORRUPTION PERCEPTION INDEX, INDONESIA (2018 - 2022)



SOURCE: Transparency International.

HAS YOUR COMPANY IN INDONESIA BEEN EXPOSED TO CORRUPTION SUCH AS, BUT NOT LIMITED TO, ATTEMPTS OF BRIBERY OR FRAUD IN CONTACTS WITH ANY OF THE FOLLOWING AREAS?

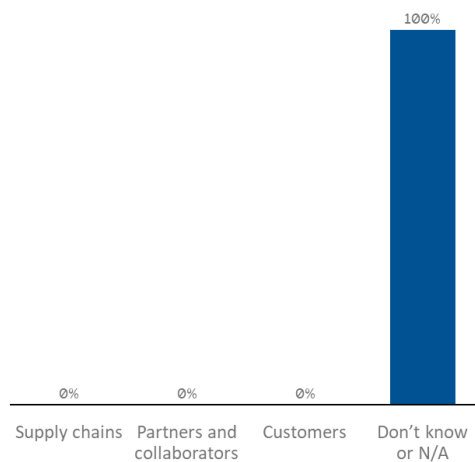


NOTE: The number of respondents for this question was 28.
 SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

No exposure to human rights or labour rights violation found during the respondents' operations in Indonesia

Respondents also indicate no exposure to human rights or labour rights violations in their interaction with their suppliers, customers, or partners in Indonesia. Strong global policies on human rights and labour rights which also bind parties partnering with the company are deemed important in encouraging the Indonesian local partners to behave ethically by respecting human rights and labour rights in their operations.

HAS YOUR COMPANY IN INDONESIA ENCOUNTERED ANY FORM OF HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS OR ABUSE IN ANY OF THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 28.
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023

THE PUSH FOR MANUFACTURING LOCALISATION

The Indonesian government continues to push for manufacturing localisation, which drive Swedish firms to manufacture products locally

As discussed previously in this report, the Indonesian government is imposing various mechanisms to discourage foreign companies to import particular types of finished goods from abroad to Indonesia, for example, finished steel products, which have resulted in significant difficulties for Swedish companies whose businesses are dependent on these kinds of products.

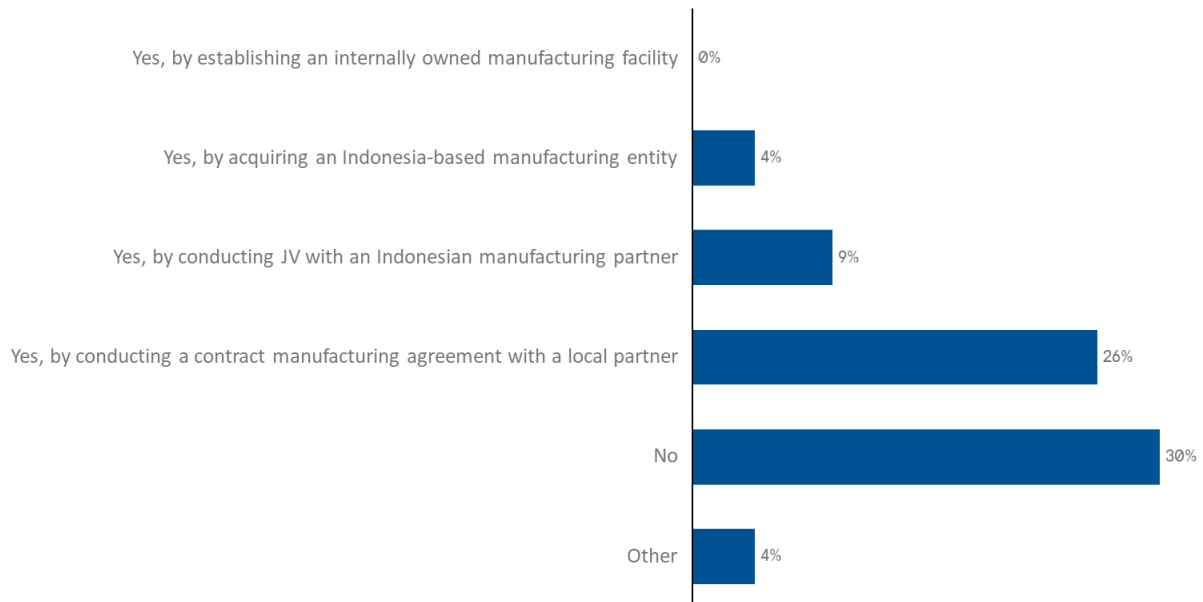
In addition to these import restrictions, the Indonesian government also mandates all government agencies and institutions to prioritise domestically manufactured products over imported ones. If there are products with a sufficiently high local content (in Indonesian *Tingkat Komponen Dalam Negeri/TKDN*) according to the regulations and quality specifications from user expectations, the government agencies are required to use the domestic products.

These policies can put Swedish companies operating in Indonesia at a disadvantage, as many Swedish firms do not manufacture their products in the country. Therefore, if there is a sufficient product demand in the country, then acquiring manufacturing capabilities either through direct investment or through collaboration with other parties can be beneficial.

There is an indication that the Swedish respondents of this survey move into this direction. 39 per cent of companies which have not established local manufacturing capabilities have stated they are interested in manufacturing their products in Indonesia. Out of these firms, 66 per cent prefer to do this through a contract manufacturing agreement with an Indonesian partner. Entering a JV agreement and direct acquisition of an Indonesian company were less preferred alternatives, with only 23 per cent and 10 per cent of respondents selecting these options, respectively. No respondent indicates their interest in investing directly to build a facility in Indonesia.

Conducting a manufacturing agreement with a local company is seen as a more favourable option for many companies, particularly those which are still at an early stage of business in Indonesia or have relatively limited financial resources, as there is no large upfront investment involved. If the contract manufacturer does not perform well, the Swedish companies can easily switch to other firms which can fulfil the contract according to the predetermined specification.

DO YOU HAVE ANY PLAN TO ESTABLISH LOCAL MANUFACTURING AND/OR ASSEMBLY CAPABILITIES AS A RESPONSE TO THE INDONESIAN LOCAL CONTENT REQUIREMENTS (TINGKAT KOMPONEN DALAM NEGERI/TKDN)?



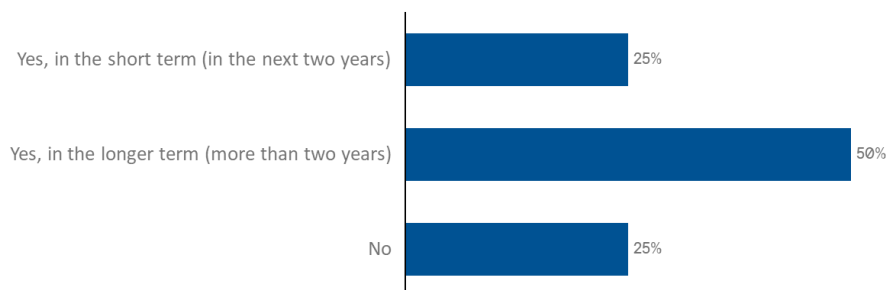
NOTE: The number of respondents for this question was 23. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023.

Swedish respondents with existing manufacturing facilities in Indonesia are still interested in expanding their capacity further

Some Swedish companies, particularly the ones with a significant number of customers in the country, have established manufacturing/assembly operations in Indonesia, which immensely helps them in public sector tenders. However, with significant domestic demand growth, existing production capacity might not be sufficient.

Among eight respondents which state that they already have an adequate manufacturing capacity in Indonesia, 75 per cent have said that they have a plan to expand their production scale in the country. Out of these companies, 33 per cent have stated that they are planning to expand their manufacturing capacity in short term (within the next two years), while the rest 67 per cent are looking at a longer timeframe (more than two years) in their plan for expansion.



NOTE: The number of respondents for this question was 8. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2023

SWEDEN – INDONESIA SUSTAINABILITY PARTNERSHIP

In 2020, Team Sweden in Indonesia, with the support of the Indonesian Ministry for Foreign Affairs, launched the Sweden-Indonesia Sustainability Partnership (SISP). SISP is a platform to develop collaborations between Sweden and Indonesia, where the countries jointly work to fulfil the United Nations Sustainable Development Goals (SDG) 2030 commitments in various fields. This programme aims to foster cooperation between Swedish and Indonesian companies and institutions, which also allows for Swedish solution providers to introduce their solutions to Indonesian stakeholders.

SISP Week 2022

By the end of every year of SISP, a conference is organised to sum up the achievements and activities in the program and have a joint dialogue to define the priorities and program for the upcoming year. In the conference, representatives from both countries' governments join hands with leading industry stakeholders to assess the program results, sign off on new collaborations and set the direction for the upcoming year. In 2022, the event was held on December 5-6 at the Langham Hotel Jakarta. It was attended by hundreds of people representing various Swedish and Indonesian companies, government institutions, and industry associations.

The program was divided into four main sessions:

- **Industry**
This session focused on exploring issues and solutions in the manufacturing industries, particularly related to how Swedish innovations can help the Indonesian manufacturing sector in increasing its international competitiveness and drive a green transition
- **Sustainable Transport**
This session focused on the plans for implementing green urban transport solutions in Indonesian cities and how Sweden can help Indonesia in electrifying and enhancing public transport systems in its major cities
- **Healthcare**
This session discussed trends in the Indonesian healthcare industry and how Sweden can support its development with public, private and academic partnerships.
- **Energy**
This session explored initiatives that can support Indonesia in achieving its 23% renewable energy target. Areas like green energy (renewable energy in general), blue energy (ocean-based renewable energy), energy efficiency, heat efficiency, and smart grid were explored and a program was developed to manage Swedish support in these areas.



*Industry Session: Panel Discussion
"Unlocking Innovation for Sustainable
Economic Growth"*



*Sustainable Transport Session: Panel
Discussion "Collaboration in Building
Resilient Electromobility System Throughout
Indonesia"*



*Energy Session: Focus Group Discussion
(FGD) on Energy Efficiency*

SISP 2023

In 2023, SISP has four active programs that were outlined and planned during the SISP conference.

- **SISP Industry 4.0 Alliance**
To support the national Making Indonesia 4.0 program, team Sweden is building an alliance of Swedish solution providers that can offer technologies to further strengthen the capabilities of manufacturers in Indonesia. Guided by the Indonesian Ministry of Industry, the alliance is meeting with C-level executives at key manufacturers in the country, discussing their needs and matching them with Swedish technologies and solutions.
- **SISP Renewable Energy Alliance**
Similar to the Industry 4.0 program, the SISP Renewable Energy Alliance is a gathering of Swedish companies that have technologies and solutions to help drive the green energy transition of Indonesia, improve its power grid and strengthen energy efficiency. The alliance is working together with Team Sweden, the Indonesian Ministry of Energy, PLN and various local project owners to identify areas where their solutions can be of best use to Indonesia.
- **SISP Transportation Program**
The SISP Transportation program is established to support the development of sustainable public transport in Indonesia, particularly by exploring how Sweden can support the electric vehicle (EV) transformation in Jakarta. Swedfund is funding a study on charging infrastructure for buses and working with the government and Swedish companies to build a long-term partnership on national EV development.
- **SISP Healthcare Program**
The SISP Healthcare program is focused on exploring how Swedish expertise and technical innovations can support Indonesia's plans for developing new and modernized hospitals. This program includes a business delegation to Indonesian major hospitals and a project to support the continued development of healthcare application and management systems.

Similar to last year, these initiatives will culminate in SISP Week 2023, which will be organised in December 2023.



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