THE SWEDISH TRADE & INVEST COUNCIL

BUSINESS SWEDEN

THINK BIG. GROW SMART.

HOW TO WIN IN THE INDONESIAN MARKET

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GROW SMART.

HOW TO WIN IN THE INDONESIAN MARKET

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Business Sweden would like to acknowledge the information shared by Swedish companies present on the Indonesian market.

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INTRODUCTION

Despite some recent headwind challenging global trade growth, Indonesia is set to remain on a positive trajectory for years to come. With a population approaching 260 million, the country will continue to strengthen its position in the region and as an important force in the world economy. Rising domestic demand, massive investments in physical and digital infrastructure, and a shift towards value-added production will provide vast opportunities for Swedish companies. At the same time, upcoming trade agreements with the world's largest economies including EU as well as a progressive government reform agenda will drive long-term trade and investment growth.

Over the last decade few economies have expanded more rapidly than Indonesia and this study shows an unanimously positive outlook among the Swedish companies present here today. However, the total Swedish footprint in Indonesia is yet to realise its full potential. Indonesia is by far the largest economy in ASEAN with over 40% of total GDP. Still, less than 10% of Swedish FDI to ASEAN-6 between 2005 and 2015 was directed to Indonesia. Compared to major Asian investors as well as most EU peers, Sweden is lagging behind and the gap is significant.

Missing the opportunity to strengthen the presence in Indonesia today would be similar to avoiding China over the past decade – a costly mistake. As with all emerging markets obstacles and challenges to capture the growth opportunities exist, and winning in Indonesia requires a growth formula that is prepared not only to adjust to the business environment, but also to actively form it. Still, to any Swedish company with international growth ambitions, Indonesia cannot be ignored.

We hope this report will inspire a new strategic approach to doing business in Indonesia and help propel the next wave of growth for Swedish companies.

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INDONESIA AT

50%

of the population is under the age of 29

2,8

million tweets are made every day in the Jakarta, the twitter capital of the world

281

million mobile phone subscriptions

1/4

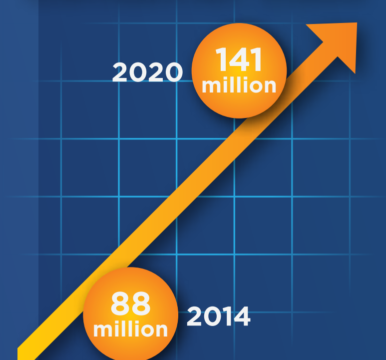
of the global goods trade passes through the Malacca strait

FDI inflow

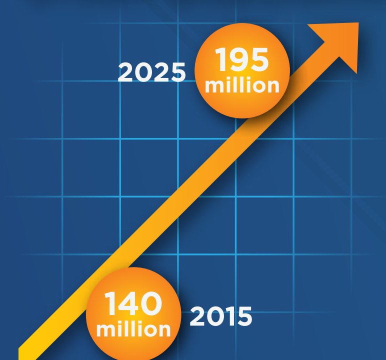
x3

from 2005 to 2015

Consumer class



Urban population



A GLANCE

4 x

larger land area than Sweden and

5120 km

from West to East

Archipelago nation of more than

17 000

islands

Poverty rate cut by

50%

since 1999

4TH

most populous nation in the world with nearly

260

million inhabitants

8TH

largest economy in purchase power parity

Steady GDP growth since 2000 at

5,6%

yearly average

INDONESIA – A GIANT ON THE RISE

Indonesia is emerging as one of Southeast Asia's most vibrant economies with a young population and a rapidly increasing middle class. The country has chartered an exceptional economic growth since the Asian financial crisis, and now accounts for about 40 percent of ASEAN-6 countries' GDP.

THE INDONESIA IMPERATIVE

Having maintained a stable economic growth during the last decade, Indonesia is one of Southeast Asia's most vibrant democracies and is rapidly emerging as an increasingly confident middle-income country. It is the largest economy within the region with a population currently counting 258 million people, and is expected to hit the 300 million mark shortly after 2030[1]. Globally, Indonesia is the fourth most populous country and the 8th largest economy in terms of purchasing power parity[2]. It is also a member of the G-20.

A main driver of Indonesia's quick economic growth is the rapid urbanisation pace. Currently, about three quarters of the overall GDP is generated in urban areas. Between 2000 and 2010, the cities grew at a rate of 4,1 percent per year, which is faster than other Asian countries such as China at 3,8 percent, India at 3,1 percent and Thailand at 2,8 percent[3]. Now, Indonesians residing in cities amount to 54 percent of the total population. In 2025, the same number is expected to reach 68 percent equalling 195 million people. This means that Indonesia has, in terms of urbanisation, by far surpassed many of its ASEAN neighbouring countries as well as India. These countries still have an urban population of about 30 to 40 percent of the total population. China, at 56 percent of the population in urban areas, is not far ahead[4].

The quickly expanding urban, middle class population of Indonesia is also young, with more than half below the age of 29[5]. Unlike the many aging economies of the West, Indonesia's positive demographic trend is expected to continue for many years to come.

Indonesia is strategically situated in the crossroads of the Asian, African and Australian continents, as well as the Pacific and the Indian Ocean. Ranked as the country with the fifth longest waterways globally, Indonesia makes a geographically ideal place for doing business. The country is also gifted with an abundance of natural resources, making it a

INDONESIA STANDS FOR

40%

OF THE ASEAN-6 GDP

major producer of for example coal, metals, palm oil, tea, and more. The four-billion-barrel oil reserve should not be forgotten, nor should the vast amount of natural gas. In spite of Indonesia's rich endowments of natural resources, the economy is not a typical Asian commodity exporter, nor is it a manufacturing exporter driven by an increasing workforce. On the contrary, it is services rather than manufacturing and resources, and domestic consumption rather than exports that are propelling growth. Services account for roughly half of the economic output. Manufacturing accounts for about another fourth of GDP, the largest sectors being food and beverages, machinery and transportation, oil and gas, chemicals, and textiles. High value added industries are still at an early stage, with a strong need of foreign technology and know-how.

AN IMPRESSIVE GROWTH JOURNEY

In the midst of headlines about global economic slowdown and world recovery yet to be realized, Indonesia's resilience stands out. The Indonesian economy has chartered an exceptional economic growth since overcoming the Asian financial crisis in the end of the 1990s. The gross national income per capita has risen steadily, going from 1935 USD in the year 2000 to 3711 in 2015. The GDP per capita has increased by 79 percent from 2143 USD the year 2000 to 3834 in 2015[6].

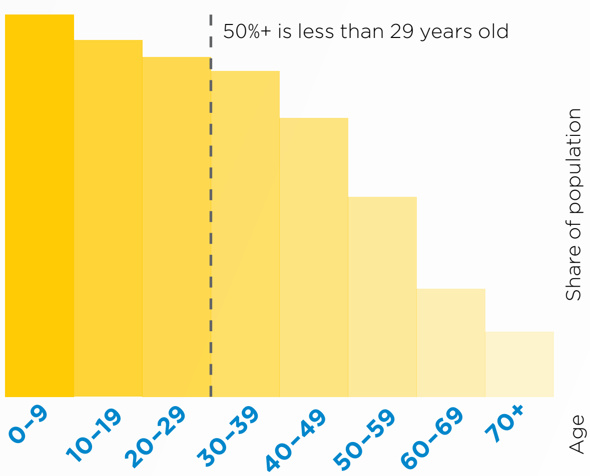
This journey surpasses many of the other ASEAN countries as well as India. In nominal values it is now almost twice that of India[7]. The World Economic Forum's macroeconomic stability index ranks Indonesia as number 34 globally, which is better than a number of its neighbouring countries such as Malaysia at 44 and Vietnam at 75. It is also far ahead of India, which ranks as number 101. Along with rising wealth, Indonesia has made substantial progress in poverty reduction. The country has cut poverty rate by more than half since 1999, to 11,2 percent in 2015[8].

FDI inflow more than tripled between 2005 and 2015, reaching 26 billion USD in 2014[9]. The heavy price fluctuations in commodities in recent years have naturally impacted the export revenues of Indonesia, which should typically result in investors' lower expectations and a slow-down in investments. But, Indonesia has defied these headwinds and continues to be a compelling destination for investors. The volatility is less of a deterrent given Indonesia's solid prospects for economic growth. The Indonesian economy is diverse with an ever-growing domestic consumption through the expanding middle-class, and thus not as dependent on commodities and natural resources exporting. Also, there is an attractive manufacturing environment with competitive labour costs.

The Indonesian imperative is evident – who could ignore close to 50 percent of the ASEAN-6 population and almost 40 percent of its GDP[10]?

> **UNLIKE OTHER COUNTRIES IN THE REGION THAT ARE SEEING THEIR WORKFORCES AGE OR EVEN SHRINK, INDONESIA HAS A RESERVOIR OF YOUNG PEOPLE THAT IT CAN DRAW UPON FOR MANY YEARS TO COME.**
>
> CHRISTINE LAGARDE
> Managing Director, IMF

Indonesia's young population 2015



WHAT'S IN IT FOR SWEDISH COMPANIES?

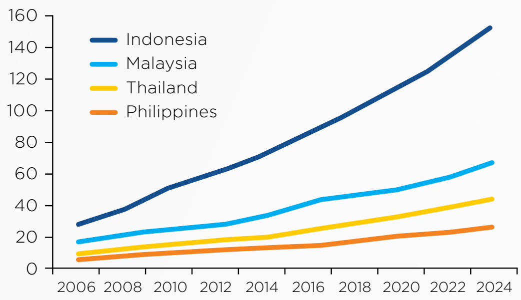
MEGA INVESTMENTS IN INFRASTRUCTURE

Indonesia's long neglected and highly overstretched infrastructure is one of the primary challenges for FDI and for doing business in Indonesia. Currently, large investments are being made in road, bridge, port, and public transportation to improve infrastructure and lowering the cost of doing business. Looking ahead, Indonesia's infrastructure spending growth is expected to be higher than all other ASEAN neighbouring countries, at an annual growth rate of 8,4 percent until 2025[11]. In 2015, there were more 200-meter-plus buildings being completed in Jakarta than any other city in the world.

The government has set out 30 prioritised infrastructure projects with a total investment value at about 65 billion USD during 2015 to 2019[12]. For example, Indonesia plans to build 24 new seaports and 15 new airports by 2019. Energy demand is expected to triple by 2030 due to urbanisation and increase in middle class, for which Indonesia plans to add 35 GW of power in the next five years. This would mean doubling the total installed capacity in a decade[13]. The most prioritised infrastructure areas are refinery, water and sanitation, and roads and bridges.

To be able to carry through these projects, Indonesia relies heavily on private investments, both domestic and foreign. All in all, the private sector is expected to contribute with half of the targeted investments.

Infrastructure spending – Indonesia vs. other ASEAN (USD bn)



Infrastructure investments snapshot 2015–2019

3 650 km of new roads
15 new airports
35 GW of new power generation
45 597 km of new transmission lines
3 258 km of new railroads
3 000 new buses for BRT System

Scania providing safe urban transportation to Jakarta

Faced with mounting criticism over poor performance and incidents of buses breaking down, Transjakarta, the company operating the BRT, had to look for a solution. Scania recognised the opportunity and began approaching relevant decision-makers to inform about the advantages of quality busses with lower life-cycle costs. By working closely with local partner United Tractors and Laksana, an Indonesian bus company capable of providing bodies, Scania were requested to deliver buses in 2015. By the end of 2017, more than 370 buses will have been delivered to Jakarta city and the demand keeps growing.

SHIFTING FROM COMMODITIES TO VALUE ADD MANUFACTURING

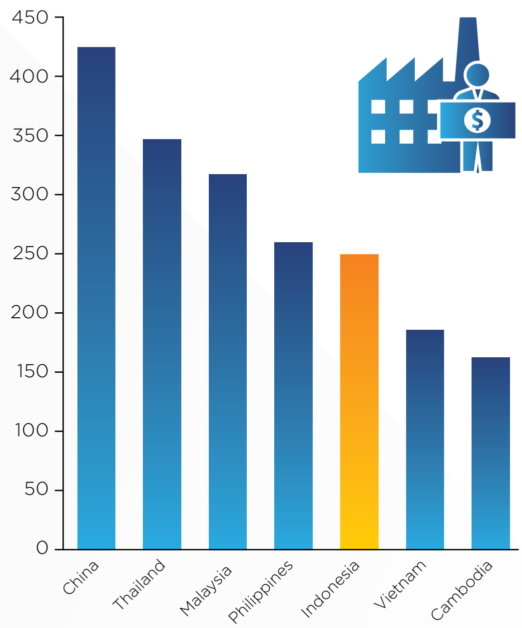
Historically, Indonesia has been a commodity driven economy. Now Indonesia has a strong need to regain its role as an APAC powerhouse in manufacturing, having lost its position during the Asian financial crisis in the end of the 90's. In order to boost economic fundamentals in terms of industrialisation, employment rate and competitiveness of local products, Indonesia is planning to strengthen exports and lower the dependence on imports. Looking at the neighbouring countries, Indonesia only has a positive trading balance with the Philippines, whereas it is negative with Singapore, Malaysia Thailand and Vietnam[14]. Today, manufactured products account for about half of Indonesia's goods exports, the remainder being commodities[15].

The large market size, vast range of raw materials and low wages makes Indonesia a compelling manufacturing destination. Indonesia's salary levels are lower than many neighbouring countries, and they are about 60 percent of those of China[16]. However, due to Indonesia's low productivity, the unit labour costs still rise to the same levels as many of its neighboring countries.

To move up the productivity ladder and increase the share of high-value add production, Indonesia needs to attract foreign investments. Within the manufacturing sector, and especially labour intensive industries, the Indonesian government is now providing tax incentives to foreign companies looking to invest. Also, the negative investment list for industries with large capital requirements are being liberalised, enabling larger foreign ownership in those sectors[17].

Substantial investments are being made in a number of value add manufacturing sectors. Among the ten prioritised industry groups to be developed in 2015–2035 are for example transportation, ICT, power plant and capital goods.

Average monthly salary in manufacturing 2015 (USD)

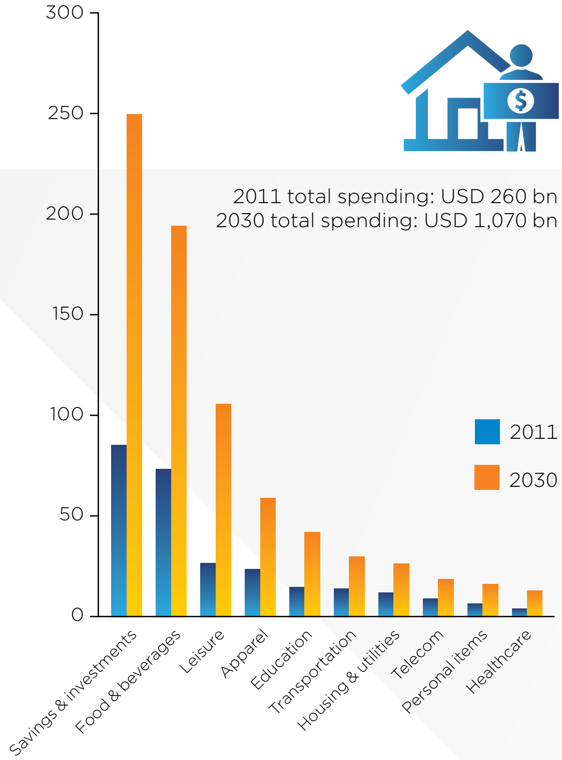


Large Japanese investments in local automotive manufacturing

Japan has strong economic ties to Indonesia and are active in development projects throughout the country. Recognising the improvements in infrastructure, reduction of red tape, as well as improvements in other historical FDI hurdles, Japanese companies are now shifting focus to Indonesia as a manufacturing hub.

Mitsubishi, with local presence since 1970, sees ASEAN as its highest priority market. Local presence exists in the form of consignment production facilities but according to Mitsubishi, the time is now right to commit to be part of the long term growth potential of Indonesia. Tariffs within ASEAN are now being removed gradually and Mitsubishi is currently constructing a factory to locally produce several models with a total capacity of 160 000 cars produced annually.

Annual consumer spending in Indonesia (USD bn)



THE RAPIDLY GROWING CONSUMER CLASS

As the Indonesian economy grows, so does the people's wealth. Rising incomes combined with the young population drive an increasing consumption trend all over Indonesia. The country's consumer class is expected to go from 34 to 52 percent of the total population in 2014 to 2020. This means that by 2020, an additional 53 million Indonesians will have joined the consumer class[18]. This creates a highly attractive retail and consumer goods market for foreign companies, and also presents significant opportunities in areas such as education, healthcare and services.

The number of smartphone users is expected to go from 55 million in 2015 to 92 million in 2019. This, together with large investments in network connectivity, presents large opportunities within the e- and m-commerce sector.

Between the years 2011 and 2030, consumer spending will rise by 8 percent annually. The largest increase is within savings and investments, followed by food and beverages, leisure and apparels.

H&M and IKEA expanding local presence

Entering the market by opening two stores in Jakarta 2013 and having expanded to 18 stores in 6 major cities in 2017, H&M is confident that this is just the start of exploring the opportunities of Indonesia. A population of 255 million where 90 million will classify as middle class by 2030 is one major reason why consumer oriented companies are now rapidly expanding. With disposable income levels expected to rise rapidly until 2030, the consumer related opportunities will be vast. The market is currently underserved in the middle income sector and other consumer oriented companies such as IKEA have also entered, and are expanding their presence in Indonesia.

The world is in a fundamental transition…but, where we see challenges, I see opportunity. In fact, our challenges are your opportunities…I stand here today, to invite you to join me and my people. On an incredible journey, on an incredible adventure. And to make incredible profits. And if you have any problems, call me.

JOKO WIDODO
President of the Republic of Indonesia

A BUSINESS CLIMATE IN TRANSFORMATION

The Indonesian business climate is rapidly improving and measures are being taken to transform Indonesia into an advanced economy. Given the current reform agenda, Swedish companies have high expectations on the market.

AN AMBITIOUS REFORM AGENDA

Sound monetary policies and increased public investment in infrastructure have contributed to the strong Indonesian economic performance since the beginning of the 2000s. Still, the country has a long way to go to become an advanced, internationally competitive economy. Indonesia struggles with logistics bottlenecks from a supply chain point of view, and there are many obstacles remaining for cross border trade, especially non-tariff barriers. The continued growth journey of Indonesia heavily depends on the country's ability to address these type of challenges. Main issues are Indonesia's historically protective trade policies and investment climate, leading to a closed business environment with low investment confidence among the private sector and foreign actors. Also contributing to the investment scarcity, especially for foreign investors, is the widespread bureaucracy and corruption.

The Indonesian government is aware of the critical need to attract foreign investment and encourage trade. The Indonesian industry needs foreign technology and support to be competitive, and public investments is not enough to meet the development need of the country in areas such as infrastructure, education, and job creation. The lingering national elements in Indonesian politics have long limited foreign ownership in the country and excluded areas of the economy from foreign investment. To address these issues and to stimulate the Indonesian economy, the current government has launched a series of economic policy packages. The aim of these reform packages is to make it easier to do business it Indonesia through deregulation of trade and investment policy, bureaucracy reduction, law enforcement and business certainty improvement. On this theme, the reform packages have carried out policies

THE INDONESIAN GOVERNMENT IS AWARE OF THE CRITICAL NEED TO ATTRACT **FOREIGN INVESTMENT** for streamlining and rationalisation of regulations, simplification of permit licensing, new channels for solving regulatory and bureaucratic problems, tax incentives, stringent and transparent public procurement processes, and more[19].

In terms of foreign investment and trade, the negative investment list has been revised, expanding the sectors available to foreign business. Also, a one-stop shop for investment approval have been established to speed up progress through Indonesian bureaucracy. To push the foreign trade facilitation, international trade agreements are being pursued[20]. Also, the Indonesia-European Union Comprehensive Economic Partnership (IE-CEPA) is currently being negotiated with a planned ratification in 2019, and the government has previously announced its intentions to join the Trans-Pacific Partnership (TPP), should this agreement come into place given recent US political developments. As previously mentioned, the long neglected infrastructure has got its share of attention too.

Already, effects of the reform program are showing and the shift towards a deregulated Indonesia has started. In 2016, Indonesia was among the top improvers in the World Bank's ease of doing business index, moving up 18 places since last year. They are now ranked at 91, but the announced target is to reach place 40 within the next few years. This would place them at par with Thailand, but still place them behind Malaysia. Looking at the corruption perception index by Transparency International, Indonesia moved up 19 places from 2014 to 2015, now ranked at place 88. These improvements clearly states that Indonesia is moving in the right direction, and that the reform programs are paying off.

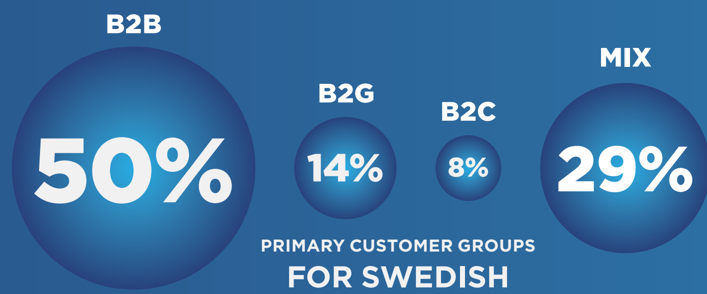
Despite results starting to show, it is clear that Indonesia still has a long road ahead and the challenges will remain for years to come. For Indonesia to keep growing and further develop as an economy, it is essential that the country continues to strive to become an easier place to do business, and that it maintains its political stability.

Ease of Doing Business ranking, The World Bank

SWEDISH FOOTPRINT...

60%

OF SWEDISH COMPANIES HAVE BEEN IN INDONESIA MORE THAN 10 YEARS



PRIMARY CUSTOMER GROUPS

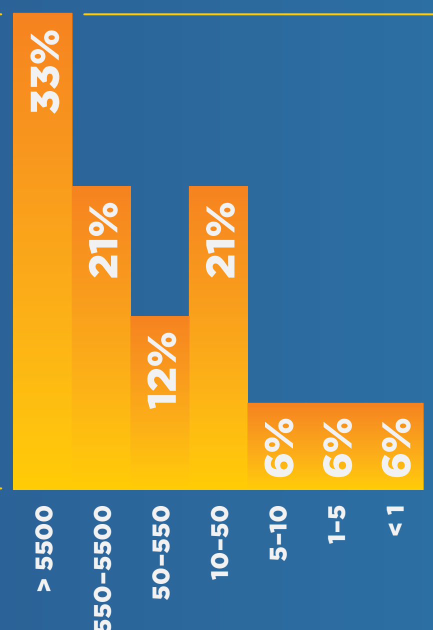
FOR SWEDISH COMPANIES IN INDONESIA

80+

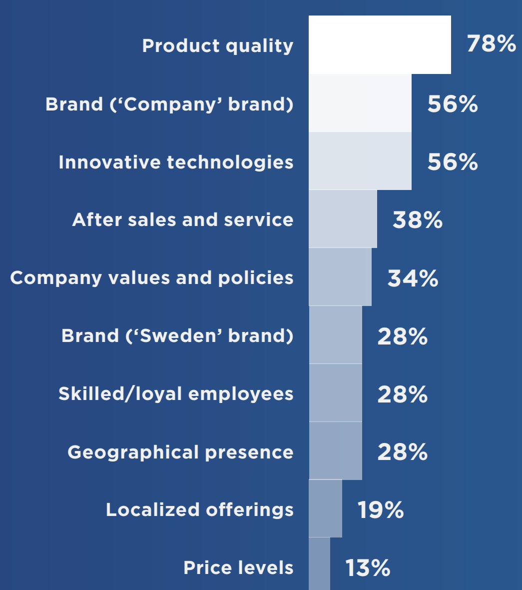
SWEDISH COMPANIES ARE CURRENTLY PRESENT IN INDONESIA

55%

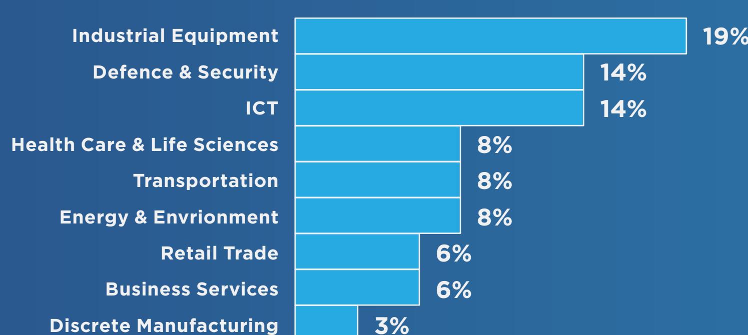
of Swedish companies in Indonesia are large global industry leaders with more than 550 MUSD turnover (global)



COMPETITIVE ADVANTAGES

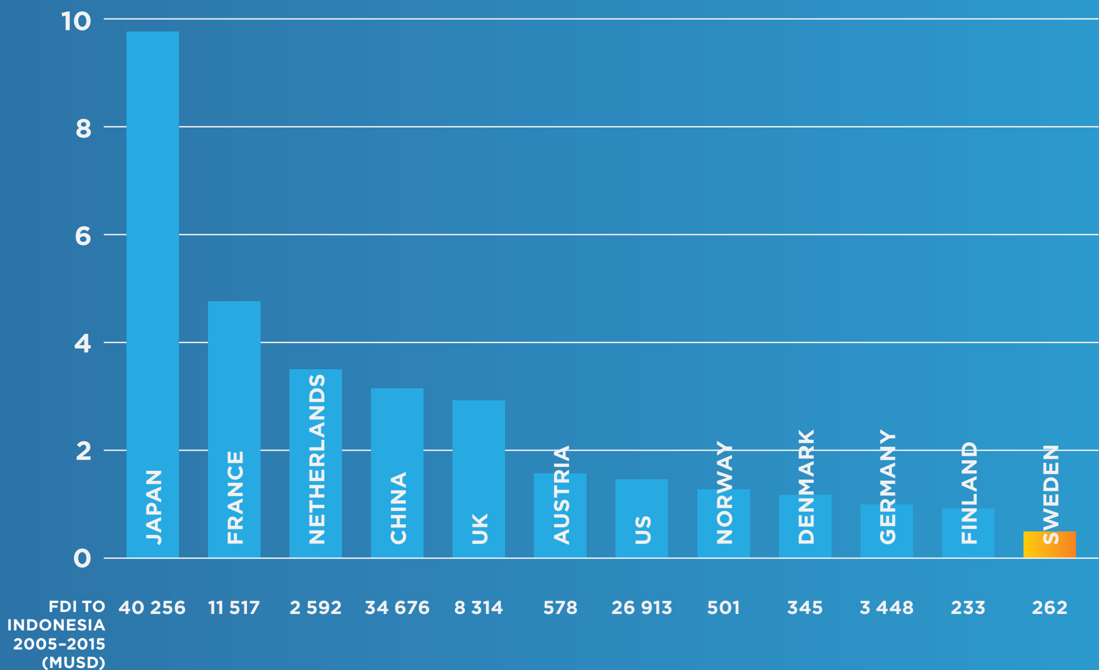


KEY INDUSTRIES FOR SWEDISH COMPANIES IN INDONESIA



...AND GROWTH OPPORTUNITIES

FDI 2005–2015 to Indonesia in relation to country GDP (per mille)



During the last decade Swedish companies invested far less in Indonesia than companies from peer markets, both looking at nominal values and FDI as share of origin country GDP.

Key advantages and opportunities for doing business in Indonesia

Large local market (sales)	97%
Cost savings (sourcing/production)	25%
Access to white collar labour	13%
Access to blue collar labour	13%
Access to unskilled labour	3%
R&D possibilites	3%

High expectations on the Indonesian market among Swedish companies in Indonesia

95% plan for long term expansion

29% consider the market more profitable than the average market

69% plan to grow turnover more than 20% within 3 years

88% plan for general investments within 3 years

83% of the manufacturing companies plan for local production investments within 3 years

74% plan to increase staff in the within 3 years

Sources: Business Sweden (survey with Swedish companies present in Indonesia, conducted June–August 2016); FDI Markets; IMF.
Note: Non-exhaustive FDI data and does not include acquisitions.

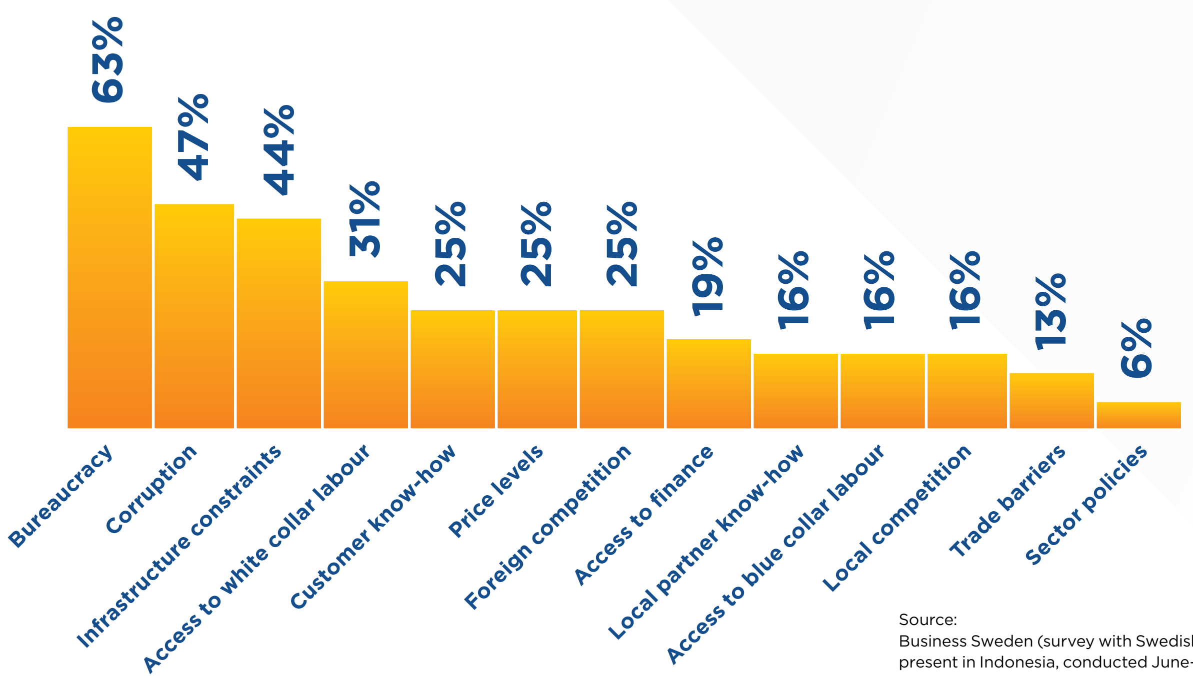
HOW TO WIN IN THE INDONESIAN MARKET

OBSTACLES TO OVERCOME

In spite of the Swedish companies' optimistic view of the Indonesian market, there are a number of tangible challenges that companies encounter on a regular basis. Typical emerging market issues are perceived as obstacles also in Indonesia. However, areas like bureaucracy, corruption, infrastructure constraints and access to skilled white collar labout, are considered worse than in many other markets.

To compete in the Indonesian market, Swedish companies must learn to cope with its structural challenges. And indeed, there are ways to come around them. Here follow some approaches common to many companies that are successful in the Indonesian market.

Key challenges cited by Swedish companies



Source:
Business Sweden (survey with Swedish companies present in Indonesia, conducted June–August 2016).

POOR INFRASTRUCTURE…

Most companies present in Indonesia have become painfully aware of the country's poor infrastructure. Almost half of the Swedish companies states infrastructure constraints as a main growth obstacle.

Road density in Indonesia is about half of that in Malaysia, and approximately two-thirds of China's. 40 percent of the roads are unpaved. In terms of railway lines, Indonesia has only half of the railway lines per person compared to Malaysia, Thailand and China[21]. The poor infrastructure drives high costs and long lead times for companies. On average, around 17 percent of a company's total expenditure in Indonesia consists of logistics cost[22]. In neighbouring economies, this number is at about 10 percent. Logistics bottlenecks force companies to stock up on supplies, driving high inventory costs. Transportation is uncertain and expensive, both at land and at sea.

Even though there are indeed substantial investments being made, companies will have to manage with highly overstretched infrastructure for years to come.

…AND HOW TO TACKLE IT

Utilise the digital transformation

Indonesia has a relatively well-developed ICT infrastructure, and there is a broad access to new technology such as smart phones and tablets among the population. The country's connectivity can be used to gather and analyse data, and enable better understanding of buying behaviour, optimised operations and streamlined processes. This typically includes involving customers and suppliers in the digital plan, to access data efficiently.

De-centralise your operations

Increased mandate at the regional level can facilitate management of delivery delays and capacity constraints, as well as enable more timely logistics processes and a higher service level. But, choose local managers with consideration. The Indonesian culture and respect for authority, "power distance", can sometimes come in the way. Indonesia has one of the highest power distances in the world, whereas Sweden as among the lowest. Indonesians are generally not proactive to take decisions, and this can create culture clashes if not properly understood. Also, be sure to monitor local management closely to avoid corruptive actions.

Consider a special economic zone

Most corporate headquarters are for good reasons located in one of the major cities (primarily Jakarta). Nevertheless, carefully consider the options for other activities such as manufacturing and trading. To attract foreign direct investments, the Indonesian government is actively promoting and expanding around 10 special economic zones (SEZ) in which business and trade laws are different from the rest of the country. In these designated estates, goods are traded with limited barriers (quotas, tariffs, duties) imposed, and favorable taxation schemes and licensing processes apply.

SPECIAL ECONOMIC ZONES

IN WHICH BUSINESS AND TRADE LAWS ARE DIFFERENT FROM THE REST OF THE COUNTRY

SKF getting closer to customers

SKF is investing in more resources closer to the customers in the industrial market of Indonesia by forming regional teams. These regional teams have strong support from central segment experts that help to increase the capabilities of the local teams by promoting more advanced applications and solution offerings. By investing in educating employees and promoting segment specific industry solutions, SKF has managed to increase the customer value and subsequently the sales in core segments to key customers. Through the combination of identifying customer needs and providing solution insights, SKF has managed the shift from pure price competition to solutions, offering superior life-cycle costs savings and reliability improvements. For both customers, employees and SKF – it is a win-win-win.

TALENT SCARCITY...

Almost a third of the Swedish companies in Indonesia states poor access to skilled white collar labour as a main obstacle for growth. In spite emerging Indonesia's large working age population, the educational system has not been able to keep up with the booming demand for skills at all levels. Higher education and vocational training is high up the government agendas, but the country is simply not there yet. There is a limited pool of well-educated and experienced talent, and the competition for skilled talent is high.

Both the quality of education and the quantity of schools is an issue in Indonesia. On average, Indonesian students perform some three years behind the OECD average. More than 50 percent of the fifteen year olds do not master basic skills in reading or mathematics[23]. Further, no Indonesian university ranks high among the various rankings of world universities. In particular, the private institutions are rated poor. Academic teaching staff are underqualified by international standards, and facilities and equipment are inadequate[24]. This leads to many graduates faring poorly once out on the job market.

Another issue is the mismatch between graduate supply and industry demand. Only 16 percent of graduates studied engineering, manufacturing and construction, which is in high demand in Indonesia's emerging labour market[25]. There is a persistent complaint among companies about graduates lacking relevant knowledge and skills.

Indonesia has made significant improvement in the education area in the last decades, but still has far to go. In 2012, more than 1 million additional students graduated from high school than in 1999, and graduation rates keep increasing. In spite of substantial efforts being made to improve learning outcomes and to ensure graduates are more knowledgeable, this talent scarcity will remain a key obstacle for companies in Indonesia for many years to come.

...AND HOW TO CONQUER IT

Collaborating with high schools and universities

Companies that manage to attract the top talent often invest in high school and university partnerships. They start branding their company name through scholarships, internships and training programs, and are present already at high school level and at the first years of university. Students that participate in trainings often function as company ambassadors for the rest of their education. Another form of collaboration can be to initiate common research programs together with schools or universities, also building brand awareness and facilitating talent finding.

Investing in competence development

In-house competence development and company training programs is a way to develop and maintain talent. Standardised certification programs both provides the employees with the skills that they need, and is at the same time seen as a big advantage when applying for a job. Indonesian workers are often aware of the lack of skills they might have, and regards continuous competence development as a way to push their career forward.

Building on Swedish core values

Merging and fine-tuning Swedish core values together with the Indonesian culture set the base for a strong corporate culture. Branding a strong CSR agenda including initiatives for the surrounding society, as well as employee benefits, can be a way to attract aspirational employees. The same goes for "clean" or anti-corruptive values. Also, the Swedish leadership culture is appreciated among Indonesians. However, as previously mentioned, the contradiction in power distance must be considered to avoid culture clashes and misunderstandings.

SAAB supporting the Indonesian triple helix

Saab plays an active role in boosting Indonesia's innovation capacity in areas of interest for the company, while at the same time putting the Saab name in students' top of mind. Saab has launched several initiatives in Indonesia aiming to strengthen the relation between the company and Indonesian universities, as well as with the Indonesian government. For example, Saab is conducting a common research program within the aeronautics area together with the Institute of Technology in Bandung. Saab also provides scholarship opportunities to Indonesian students to pursue master's degree studies at the Royal Institute of Technology in Stockholm.

Ericsson cultivating its talents

Ericsson in Indonesia works constantly to improve the skill and competence of its staff. They provide regular courses and trainings, as well as individual development plans, within both technical knowledge and leadership. Training modules are held both in the office and in tech labs, and the employees can also attend trainings in the regional office, the headquarters, or both, depending on their knowledge and field of action. Further, Ericsson has built their own e-learning facility, which employees can use to grow in their positions.

Tetra Pak enforcing strong CSR practises

Tetra Pak keeps a robust framework for CSR activities, not least in Indonesia. Here, Tetra Pak has its own on-site medical doctor, annual medical check-ups for and a comprehensive health plan which covers all staff and family members. Also, the company have a long standing relationship with the Worker's Council. All policies related to employment terms and conditions are documented in a comprehensive Collective Labour Agreement, which is renegotiated every two years. Further, as part of its elaborated CSR plan, Tetra Pak is actively engaged in close communication with the neighbours of the factory and also encourages all suppliers to follow the company standard Business Conduct procedures. This is governed by regular follow ups including supplier on site audits.

UNRELIABLE REGULATORY CLIMATE...

When talking to Swedish companies currently present in the country, more than 60 percent state that cumbersome bureaucracy impedes their growth. Slow decision making and stiff rules and regulations put a heavy regulatory burden on companies leading to high costs and long lead times. Adding to this is the inconsistent governance and continuously changing regulations. Companies have to adapt to new decisions, rules and priorities as they come along, on short or no notice.

The wide-spread, local protectionism amplifies the bureaucracy further. Government authorities are often sceptical towards new developments and innovations. They do not necessarily accept a new product into the country just because it passed authorities in for example the US or Europe. The local protectionism also shows in the form of local content pressure. This meaning that, depending on industry, a specific share of a product's components must be locally sourced. Also, full foreign ownership is seldom allowed, and local employees is considered a necessity by many Indonesian stakeholders.

Almost half of the companies cites corruption as a main challenge. In fact, no less than 30 percent of the companies encountered come kind of corruption and criminal behaviour such as bribery and fraud in their business operations in the year of 2015. Most often, corruption is experienced when dealing with governmental counterparts, but it is also seen when interacting with private counterparts such as suppliers and customers, as well as internal employees.

...AND HOW TO NAVIGATE IT

Excel in relation building

The importance of identifying, building and maintaining a broad domestic network cannot be stressed enough in the Indonesian business context. Connections at all levels are key to access the right and reliable business partners, and to help navigate through the complex regulatory market. This is about working actively on business relationships, and spending more time on networking than might seem necessary in other parts of the world.

A strong domestic network can also be used to form a joint venture with a local partner. This is a way to apply with rules about domestic ownership stakes in some industries, and regulations in terms of local content. Successful companies leverage their domestic network to find local suppliers, distributors and other partners that they know they can trust, and that they can collaborate with in a fair and efficient manner.

Take part in indonesian development

Investing time and resources to become a national asset, not only by growing turnover in the market but also as a key partner in prioritised development programs, is important. Indonesia has its eyes set on becoming a more productive nation in terms of both R&D and infrastructure, enhance skill development, strengthen rural areas, and much more. Participating actively in those areas not only builds the company brand in Indonesia, but also establishes the company as a credible and trustworthy business partner for the Indonesian nation. This will set the foundation for a strong negotiation position.

Impact regulations to your advantage

In spite of the almost institutionalised bureaucracy, Indonesian authorities are often more open to new, sound best practices than many might assume. Regulators are receptive to adjusting policies, and it can happen quickly once they understand the benefits. They do not however, approve of new rules and standards just because other nations have done so. On the contrary, they are thorough in their assessments and make sure to consider the full impact of allowing new innovations or business activities in the country. This is about working closely with regulators to develop a more effective system that benefits all. It is important to make sure to carefully explain the benefits of the new product or process to the Indonesian economy and society, and to educate the regulators.

TAKING PART OF INDONESIAN DEVELOPMENT WILL SET THE FOUNDATION FOR A

STRONG NEGOTIATION POSITION

Atlas Copco providing clear water and sanitation

Atlas Copco's program Water for All provides villages in Indonesia with clean drinking water and sanitation systems. This initiative sets up the infrastructure for clean water provision in rural area villages. A recently finished project enabled 1500 people to benefit from the new water system. Access to clean water means reduction of diseases, and enables village development since less time is spent on water gathering.

THE FORMULA FOR GROWTH

To any Swedish company with global ambitions, the growth opportunities in Indonesia cannot be ignored. But a sustainable presence requires a growth formula that is prepared not only to adjust to the challenging business environment, but also to help actively form it.

The obstacles Swedish companies typically encounter will remain for years to come, but those that sit around and wait for change will miss out on major business opportunities. We see four main ingredients in the growth formula required to succeed.

TRUST YOUR SWEDISH VALUE PROPOSITION

GET YOUR STORY STRAIGHT
- Align your strategy to the ambitions of your stakeholders
- Be prepared to invest in areas outside of the normal scope

MAKE TALENT A STRATEGIC PRIORITY
- Identify and encourage talents at all levels of your organisation
- Build and market a strong employer brand

GROW WITH YOUR INDONESIAN PARTNERS
- Embrace and enhance your business ecosystem
- Collaborate across your network to drive synergies

SWEDISH COMPANIES HAVE THE
RIGHT PREREQUISITES
TO WIN IN THE INDONESIAN MARKET

Get your story straight

Set a long-term plan for your business in Indonesia. Be prepared to invest in areas outside the ordinary scope, such as infrastructure, competence, innovation, and activities to form regulations. Align your local company strategy to the Indonesian growth ambitions and development goals. Prove to stakeholders that you prioritise local interests, and that you contribute to the country while making business sense for yourself. This kind of commitment requires a somewhat different approach in terms of business plan and investment calculation.

Make talent a strategic priority

Make sure to have a solid talent strategy when entering Indonesia. Be clear on how your company will manage to win over and nurture competent employees, and be aware of the ongoing talent war. Gain competitive advantage by identifying talents early, and building the employer brand. Draw on the Swedish leadership culture, company core values, and development opportunities to attract and nurture top talents at every level.

Grow with your Indonesian partners

To be successful, understand that your business in Indonesia is part of an ecosystem where the success of one party is depending on the success of other parties. Patiently establish a strong network and seek local partnerships, then invest time and resources in strengthening those partnerships. Work actively to develop your local distributors and suppliers through tight performance management, partner with regulators to develop a more effective system that benefits all, cooperate with schools to bridge the talent gap, and leverage joint ventures to push a mutual agenda. Growing with, and through, partners is likely to be fundamental for your long-term success in Indonesia.

Trust in the Swedish value proposition

Let your company heritage and core values guide you. A strong awareness and belief in the Swedish value proposition should permeate your long-term strategy, your talent approach, and your network tactic. Let your Swedish core values, high quality, innovative processes, and leadership culture spill over and pervade your Indonesian business model. While other markets might start to demand more adaptive measures, the Swedish value proposition still stands strong in Indonesia.

Most companies doing business in Indonesia are aware of its challenges. However, the country's vast business potential makes the effort of finding ways around those challenges worthwhile. As change may, or may not, be easily achieved, you will have to adapt to the conditions and accept a certain degree of risk. Managing this risk should be done without losing sight of your business culture, core values and operational standards. It is our firm belief that Swedish companies have the right prerequisites to win in the Indonesian market. In fact, we believe that Swedish companies are a key element in Indonesia's continued growth. With the right formula for growth, Swedish companies can overcome Indonesia's obstacles and instead position themselves as essential for the Indonesian growth journey. It all comes down to thinking big, and growing smart.

Appendix: the growing political importance of Indonesia

SELECTION OF HIGH-LEVEL VISITS TO INDONESIA IN 2014 TO FEBRUARI 2017

In recent years Indonesia's confidence on the world stage has been growing. President Joko Widodo has made several important visits to the US, Russia, China and Japan to boost economic, political and military cooperation. With Indonesia's bid to join the Unites Nations Security Council for a non-permanent seat in 2019–2020, even stronger efforts to highlight its leadership ambitions on the international arena are to be expected. The interest to work more closely with the rest of the world is far from one-sided; as the largest Muslim-majority country, a member of G20, and as the world's third largest democracy, Indonesia is beginning to enjoy increasing attention from top political leaders. Jakarta and Bali have both been hosts to several high-level visits and events over the past few years, with the state visit by the king of Saudi Arabia in March 2017 being particularly notable due to its sheer size. Jakarta also houses the ASEAN Secretariat, which adds to its importance as the unofficial political capital of Southeast Asia. Additionally, as the negotiations with the EU on a Comprehensive Economic Partnership Agreement progresses, European governments and investors are bound to intensify their activities in the region's largest economy and nascent political powerhouse.

1 Xi Jinping, President of China
2 Salman bin Abdulaziz Al Saud, King of Saudi Arabia
3 Shinzo Abe, Prime Minister of Japan
4 Francois Hollande, President of France
5 Recep Tayyip Erdoğan, President of Turkey
6 Federica Mogherini, EU's High Representative/Vice President
7 Herman Van Rompuy, President of the European Council
8 David Cameron, Prime Minister of the United Kingdom
9 Queen Margrethe II and Prince Henrik of Denmark
10 Sauli Niinistö, President of Finland
11 Sushma Swaraj, Foreign Minister of India
12 Frank-Walter Steinmeier, Foreign Minister of Germany
13 Philip Hammdon, Foreign Minister of United Kingdom
14 Ban-ki Moon, Secretary General of the United Nations
15 John Kerry, US Secretary of State
16 Mark Ruttej, Prime Minister of The Netherlands
17 Sergio Mattarella, President of Italy
18 Erna Solberg, Prime Minister of Norway
19 Christine Lagarde, Managing Director of IMF
20 Jim Yong Kim, President of the World Bank
21 Didier Burkhalter, Foreign Minister of Switzerland

ABOUT THE REPORT

Indonesia is a prioritised market for Sweden. Today, about 80 Swedish companies are active in Indonesia, and there is room for many more. This study aims to attract attention to the possibilities in the Indonesian market, and to widen the understanding of commonly experienced growth challenges and how to tackle them. For any company looking to enter or expand in the Indonesian market, we believe it is highly important to be aware of those challenges, and to have a clear strategy on how to manage them.

The analysis is based on a survey with Swedish companies currently present in Indonesia. It covers the companies past, current and planned operations in the country, as well as their perceived market situation. There were 39 respondents in total, of which the majority was large size companies spanning across all industry sectors. In addition, in-depth interviews and discussions were conducted with 10 of the companies. The survey and in-depth interviews were conducted by Business Sweden and the Embassy of Sweden during the time period June to August 2016. Besides this, data from various internationally established data research institutes has been used, as well as Business Sweden's extensive experience of doing business in Indonesia and the surrounding region.

FOOTNOTES

1 UN Department of Economic and Social Affairs (2016)

2 The World Bank (2016)

3 The World Bank; UNFPA; Business Sweden; (2016)

4 The World Bank (2016)

5 Worldometers (2016)

6 IMF (2016)

7 The World Bank (2016)

8 The World Bank (2016)

9 The World Bank (2016)

10 The World Bank (2016)

11 PwC (2015)

12 Bappenas (2016)

13 The Economist (2016)

14 Indonesia Investments (2015)

15 UN Comtrade 2016; Business Sweden (2016)

16 EY (2015)

17 Global Business Guide Indonesia (2016)

18 BCG, McKinsey Global Institute, Business Sweden (2016). Consuming class is defined as individuals with an annual net income of above USD 3600 at purchasing power parity, using constant 2005 PPP dollars.

19 Ministry of Communication and Information Technology Republic Indonesia (2016)

20 Ministry of Communication and Information Technology Republic Indonesia (2016)

21 Bain (2013)

22 Chamber of Commerce and Industry Indonesia (2016)

23 OECD ADB (2015)

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