ASIA INVESTMENT RESEARCH
Tracking Global Investment Flows Into China & Asia

• May 2023 Issue •

AIR

A GUIDE TO INDONESIA'S FOREIGN INVESTMENT TRENDS & KEY INFRASTRUCTURE PROJECTS

A Publication From China Investment Research Ltd.

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INTRODUCTION

Much has been written about Indonesia's 2022 successes- record inbound FDI and highest GDP growth since 2013, driven by booming commodity prices (thermal coal, palm oil and nickel) combined with a rebound in household consumption following lifting of COVID 19. While 2023 and 2024 GPD is expected to slow for a number of reasons, by 2030 Indonesia, which is already the largest economy in Southeast Asia is on track to become the world's 7th-largest economy, overtaking Germany and the United Kingdom.

Therefore, we focus this paper analysis on specific areas of current and near term future growth:

- Mapping US$50+ billion in 2022-2023 inbound investment from East Asia, GCC and G7, focussed on infrastructure, renewable energy, NEVs and semiconductors;
- Digitisation/VC- we use the 2022 version of the Google, Temasek and Bain study as an base to track inbound 2022 VC investments which showed continued strong activity in fintech and e-commerce, but lack of activity in med-tech and overall declines in seed rounds;
- Infrastructure projects (near term) –Jakarta-Bandung HSR (2023 launch) and Trans-Java Toll road (completion 2024);
- IPOs/equities – Globally, 2022 IPO markets were well below 2021 levels. That said, Indonesia's IDX was up 4%, while USA, China and Japan showed sharp declines. There were similar declines in IPOs. Indonesia led ASEAN in volume; however several of the early 2022 IPOs encountered significant headwinds later in the year;
- Renewable energy- In 2021, Indonesia's renewables energy mix was 13.83%; hydropower 7.9%, geothermal 5.6%, and other forms 0.33%. Indonesia must reach 23% by 2025 to reach its climate objective. We discuss 2022 hydropower projects launched with Japan and China to help attain these goals.

We also track the 2022 progress of two major Indonesian projects which are innovative, and thus more challenging to fund in today's markets; INA – a different sort of Sovereign Wealth Fund (SWF) and Nusantara – a new capital city which we see as hugely aspirational.

Indonesia finished its year of G20 Presidency reaching consensus and then launching Just Energy Transition Partnership (JTEP)- demonstrating climate change leadership in a difficult year.

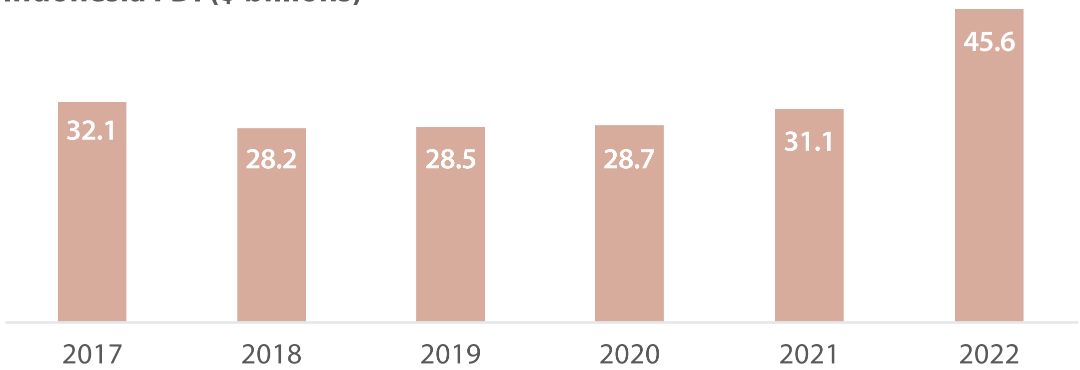
As an update, it is worth noting that many of these trends have continued during Q1 2023; two highly successful IPOs of major Indonesian nickel companies, progress on a programme with the ADB is retiring existing coal fired power plants out of service (started in 2022) and attracting capital for foreign governments…Malaysia's new prime minister for example is committed to investing in Nusantara, Indonesia's new capital city.

INDONESIA FDI 2022

Overview

Indonesia FDI in 2022 was $45.6 billion, the highest FDI in the country's history. The amount represents a 44.2% increase from the $31.1 billion in 2021, which itself was up by 8.9% from 2020. The 44.6% increase in 2022 represents the highest FDI growth in the world for 2022. In 2022, FDI accounted for 54.2% of Indonesia's overall 2022 country investment.[(1)]

Indonesia FDI ($ billions)



FDI by industry, the top two led with 35% of total FDI; metal, machinery, and equipment industries led with circa $11 billion, mining $5.1 billion. This is consistent with 2021 percentages which were partially driven by nickel mining in Sulawesi. The other key 2022 industries included chemical and pharmaceuticals $4.5 billion, TMT $4.1 billion, electricity, gas, and water supplies, $3.8 billion, property $3 billion, the food industry $2.4 billion, agriculture/ livestock $1.8 billion, paper and printing and services both $1.6 billion and the vehicle industry $1.5 billion.

FDI by region/country – Asia dominated; Singapore with $13.3 billion, China $8.2 billion, Hong Kong $5.5 billion, Japan $3.6 billion, Malaysia $3.3 billion and South Korea with $2.3 billion. [(2)] In 2021, Singapore and Greater China saw 50%, while the USA was 3rd with $2.5 billion. [(3)]

The Government also reported that the combined domestic and foreign investment created more than 1.3 million new jobs across Indonesia in 2022.

Within Indonesia 2022 FDI provincial recipients outside of Java (its most crowded island) saw increasing percentages of investment. Central Sulawesi, home to a major nickel processing industry, received the largest amount of FDI at $7.5 billion, North Maluku is ranked third with $4.5 billion while Riau seventh with $2.7 billion.

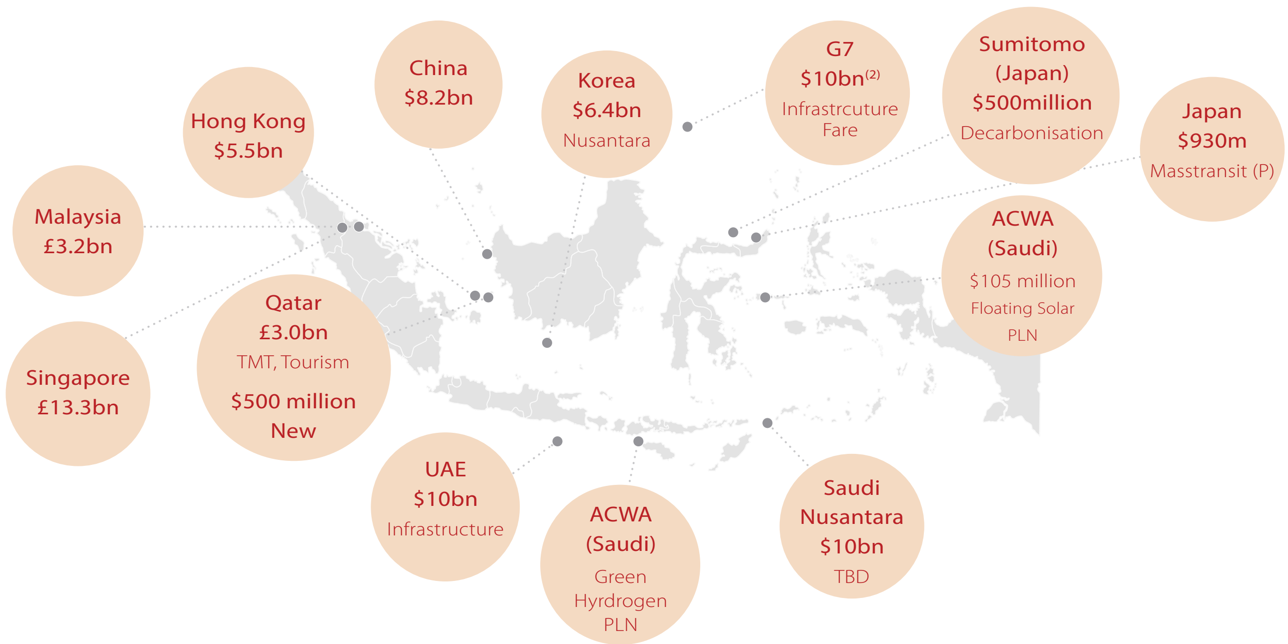
(1) https://jakartaglobe.id/business/indonesia-reports-highest-fdi-in-history

(2) All country sources cannot be reconciled as many companies use local hubs for their Indonesia investments- such as Singapore or South Korea's Lotte Corporation which invested in Indonesia through its Malaysian hub.

(3) https://indonesien.ahk.de/en/infocenter/translate-to-english-highest-foreign-investment-in-the-last-four-years

It is clear that Malaysia, Japan and Korea became substantial new entrants in 2022. It is also clear via the below map that GCC/MENA became more active as the year progressed.

These trends have continued into 2023, as the Malaysian Government signed 11 LoI's during the January State Visit.



Footnotes:

(1) Excludes tourism, finanacial and consumer investments.

(2) UK's $1bn contribution is to backstop a loan; No actual cash.

P=Pledge

Source: Asia Investment Research

INDONESIAN DIGITISATION – VENTURE CAPITAL

Overview

Digitalisation

According to a report by Google, Temasek, and Bain & Company (2022), Southeast Asia's digital economy grew by 67% between 2020 -2022. The gross merchandise value (GMV) increased from $116 billion in 2020 to $194 billion in 2022. The report also projects Southeast Asia's digital economy to surpass $330 billion by 2025 and will become a $1 trillion digital economy by 2030. Five leading sectors will be driving the growth, namely, e-commerce, financial services, online travel, online media, and transport and food.

Indonesia, the largest economy in Southeast Asia, has seen the value of its digital industry grow significantly from $41 billion in 2019 to $77 billion in 2022. The figure is expected to increase to $130 billion by 2025, driven primarily by e-commerce.

There are several factors are behind the rapid growth of Indonesia's digital economy over this time period: firstly, a substantial young population that is technically savvy; second, the relatively high mobile penetration facilitates the frequent use of e-commerce and social media sites to buy and sell products and services; thirdly, the growing popularity of digital payments to support with the increase in online consumption. Finally, the government has introduced supportive policies to boost digital economy, accompanied by improvements in the digital infrastructure. The results of all of these measures has shown that the number of users has increased greatly during the pandemic, from 150 million in 2019 to 203 million in 2021. This reflects a considerably high 73.7% internet penetration rate for the total population.

Regional Digital Hub

The Government plans to promote the Indonesia as a digital hub in Southeast Asia and thus increase its investments digital infrastructure, such data centres in Moreover, the government is also targeting more and more micro, small and medium enterprises (MSMEs) to enter the digital market, reaching 30 million MSMEs by 2030.

E-commerce is often the most significant component in a digital economy. It already accounts for almost 70% of the sector's gross merchandise value (GMV) in Southeast Asia. The pandemic has further boosted this sector and pushed businesses, regardless of their size and products, to online sales channels for survival.

Indonesia, the biggest digital economy in the region, has shown a 13% increase in digital consumers during the pandemic. This was largely in e-commerce, which grew by more than 60% during the pandemic.

The pandemic was a catalyst for the frequency of using online services. According to the Google, Temasek, and Bain & Company (2021) report, about 88% of internet users were pushed to adopt e-commerce, especially MSME owners, because of the pandemic. In fact, about 28% of merchants in Indonesia believe they would not have survived Covid-19 if they had not moved to digital platforms.

In observing the rapid growth in e-commerce, more merchants are going online. Moreover, compared to pre-COVID levels, there are substantially more users in food delivery now. As much as 64% of internet users in Indonesia increased the frequency of food delivery orders compared to the pre-COVID period. Going forward, food delivery services will remain promising, yet highly competitive.

Google, Temasek and Bain, e-Conomy SEA 2022

Fintech

Another important trend after the pandemic is the increase in fintech adoption. In Indonesia, this change has been driven by a significant portion of the population being unbanked and by the lower-income groups in urban areas. According to an Asia Bank report, 65% of e-commerce users prefer the e-wallet as their payment method, with 90% of transactions being below Rp500 thousand (US$45). As much as 69% of internet users order food online using e-wallet and cash-on-delivery (COD) methods.

Moreover, the increase in e-money transactions was also driven by the expansion and convenience of the digital payment system as well as the acceleration of digital banking.

Hence more people prefer contactless payment. Hybrid models will become more prevalent in various environments. Uni-channel transactions will continue to make way for multi-channel and omnichannel transaction models.

The popularity of digital wallet apps for food and beverage purchases is likely to stay the same. Food delivery will continue to boom. This is because urbanites have become used to purchasing food and beverages online for day-to-day consumption and consider them affordable. About 69% of users order food online using e-wallet and cash-on-delivery (COD).

Interestingly, despite the popularity of e-wallet transactions, customers will continue to rely on cash after the pandemic. Those who pay through COD are likely to increase post-pandemic because buyers are already returning to work, including daily labourers and gig workers who are paid by cash. In fact, the share of firms paying in cash increased from 58% in 2020 to 60% in 2021.

New Growth Areas – Health Tech

After the pandemic, customers are more health-aware and health-concerned.

In addition, growing population, increased demand for healthcare services and technological innovations will continue driving Indonesia's healthtech market. Convenient and speedy healthtech apps (e.g., Alodokter, Halodoc, and Grabhealth) are likely to create more demand.

The healthtech growth is expected to remain robust over the next few years owing to the entrance of new international startups and investors and an increase in product awareness. Collaborations between existing providers and healthtech startups are gradually taking place, moving towards deeper integration, and can potentially overcome the fragmentation that presently exists in the health system.

Each year, around 1.5-2 million Indonesians go on Umrah and Hajj pilgrimage. They need health services such as medical check-ups, meningitis vaccine injections, and PCR. A new digital health platform, Medzit under Gaido Digital Medika Ltd, is trying to tap into this market by integrating travelling with digital health services.

Following the aforementioned study, we now set out 2022 selected Indonesian VC/PE investments, initially by quarter (Q1 and Q2), and, as volumes declined in the last half of 2022, by H2. We include both financings and acquisitions.

The Q1 data was consistent the study as shown below in Table 1.

Selected 2022 Q1 Indonesian VC/PE					
Date	**Company Name**	**Industry**	**Seed/Series**	**Amount ($m)**	**Investors**
			Strategic		
10/01/22	Allo Bank	Financial		330	Bukalapak, Grab, Carro, Growtheum Capital Partners
11/01/22	eFishery	Agritech	Series C	90	Temasek, SoftBank Vision Fund 2, Sequoia Capital India
13/01/22	Plaung	Fintech	Series B	55	Accel Partners
14/01/22	KoinWorks	Fintech	Series C	108	MDI Ventures
27/01/22	Aruna	Fishery	Series A	30	Prosus Ventures
01/02/22	Ayoconnect	Financial	Series B	15	Tiger Global, PayU, Alto Partners
			Financing		
15/02/22	Akulaku	Fintech	Sereis E	100	Siam Commercial Bank
16/02/22	Funding Societies	Fintech	Series C+	144	SoftBank Vision Fund 2
25/02/22	Broom	Financial	pre-seed	3	AC Ventures, angel investors
25/02/22	Bank Index	Banking	Corporate Round	ND	Carro
21/03/22	Sayurbox	E-commerce	Series C	120	Northstar and Alpha JWC Ventures,
Date	**Target Name**	**Industry**	**Percent**	**Total Value ($m)**	**Acquirers**
21/01/22	Bank Fama	Banking	16.3	47	Singtel

Number of 2022 Q1 VC/PE Deals	12
Aggregated Amount of 2022 Q1 VC/PE Deals ($m)	1,042

Of the 11 Q1 VC financings, 7 were in fintech/financial; 1 was in banking; 1in e-commerce and two in agriculture/fisheries. There were no VC investments into medtech/healthcare. Interestingly, only one of these investments was seed as most of the VC investments were Series A-F, with the largest amounts in Series C, hence aggregate quarterly amounts were over $1 billion. This shows increasing capital to get a company to market, but very little start up activity.

The one banking acquisition was for a strategic stake, less than 20% for cross sell purposes.

Q2 data was also consistent with the study as shown below in Table 2:

Selected 2022 Q2 Indonesian VC/PE					
Date	**Company Name**	**Industry**	**Seed/Series**	**Amount ($m)**	**Investors**
			Financing		
12/04/22	Waresx	Logistics	Series B	50.3	Bukalapak, Grab, Carro, Growtheum Capital Partners
13/04/22	JULO	Financial	Corporate Round, Debt Financing	80	Credit Saison
13/05/22	Qoala	Insurtech	Series B	65	Eurazeo
13/05/22	Finku	Financial	Seed	2.8	B Capital Group, Global Founders Capital, Trihill Capital
22/05/22	Xendit	Fintech	Series D	300	Coatue, Insigh Partners
25/05/22	Bibit.id	Financial	Venture Round	80	GIC Private Ltd, Prosus Ventures
07/06/22	PINTU	Crypto	Series B	113	Intudo Ventures, Lightspeed, Northstar Group, Pantera Capital
Date	**Target Name**	**Industry**	**Percent**	**Total Value ($m)**	**Acquirers**
			Acquisition		
05/04/22	Bisnis International	Banking	40 » 75	200.0	FinAccel
12/04/22	Bumi Arta	Banking	24 » 40	52.0	Ajaib
13/04/22	Globalindo Multi Finance	Financial	100	ND	Xendit
06/06/22	Mitra Pinasthika Mustika	Finance	50	54	Carro

Number of 2022 Q2 VC/PE Deals	**11**
Aggregated Amount of 2022 Q1 VC/PE Deals ($m)	**997.1**

There were 7 VC investments in Q2; 4 in financial, 1 in insurtech, 1 in crypto and 1 in logistics, a high growth business across ASEAN. Again only 1 of these was seed; the majority of the activity was in the Series B-D.

The big story of Q2 was the launch of digital banking. We set out 4 such investments – all of which took place within a 60-day period since launch. Note, only 1was for a 100% stake.

H2 data was also consistent with the study, relative to industries, as shown below in Table 3, but slowed in volume.

Selected 2022 H2 Indonesian VC/PE					
Date	**Company Name**	**Industry**	**Seed/Series**	**Amount ($m)**	**Investors**
			Financing		
19/07/22	Pintarnya	Services	Seed	8	East Ventures, Vertex Ventures SEA & India (VVSEAI)
10/08/22	Dana	Financial	Secondary Market	250	Sinar Mas Group
11/08/22	Dana	Financial	Venture Round	305	Lazada
14/09/22	Fazz	Fintech	Series C	100	Tiger Global, DST Investment, B Capital, Insignia Ventures Partners, ACE & Company, Lendable
12/10/22	Kredivo	Financial	Series D	140	Mirae Asset
14/10/22	Ayoconnect	Financial	Series B	13	SIG Venture Capital
14/11/22	Privy	Digital Finance	Series C	48	KKR
26/12/22	Akulaku	Fintech	Venture Round	200	Mitsubishi UFJ Financial Group (MUFG)

Number of 2022 Q3 VC/PE Deals	**8**
Aggregated Amount of 2022 H2 VC/PE Deals ($m)	**1,064**

There were 8 VC investments in H2, 7 in financial and 1 in services. Again, very little seed activity as investors were moving to re-risking as year progressed. The presence of corporates including Sinar Mas and MUFG as well as major PE firms such as KKR also sent strong messages for additional future investment once the domestic Indonesian and indeed global markets settle.

Methodology: this data was obtained from a number of public sources including the actual issuers, and selectively through VC specialist data firms including Pitchbook, Crunchbase and Traxcn. All data was subsequently analysed, categorized and reconciled by Asia Investment Research.

INDONESIA MAJOR INFRASTRUCTURE PROJECTS

Overview

In all of our country research, we include a section on infrastructure – with a focus on near term effects. This is especially true for Indonesia, where infrastructure played a major role in the re-election of President Widodo. Prior to Widodo's refocus, Indonesia was known for announcing major infrastructure projects, but not getting them over the line (Jakarta Mass Rapid Transit (MRT) and a major hydropower project in Borneo's jungle launched nearly a decade ago).

In this section we focus on the largest projects with a near term focus to drive economic growth and how they have progressed over the past 2 years.

2022-2024

Jakarta-Bandung High-Speed Rail ($7.8 billion)

Indonesia plans to launch Southeast Asia's first HSR which connects Jakarta and Bandung, the heavily populated capital of West Java province. This line will cut travel time between two cities from the current three hours to about 40 minutes and is part of a planned 750 km line that would cut across four provinces on the main island of Java and end in the country's second-largest city of Surabaya in east Java. In December 2022, the Director General of Railways of the Ministry of Transportation stated that progress in construction of the Jakarta-Bandung Fast Train (KCJB) had reached 91.7%. (1)

The rail deal was signed in October 2015 after Indonesia selected China over Japan in competitive bidding process where China's Special Purpose JV ownership vehicle, assumed the liabilities/debt (75% of the financing) while the Japanese offer put the liabilities/debt on the Indonesia (country)balance sheet.

The rail line construction that began in 2016 was originally expected to start operating in 2019 but was delayed until June 2023 due to disputes that involved land purchases and environmental issues. In his December 2022 conference, Pandjaitan said that the cost overrun had been addressed while adding that the costs burgeoned due to technical issues, in the form of soil damage. "Our cost overrun has been completed. Actually, a lot of cost overrun is due to land damage". The 142.3-km HSR was built by the SPV; PT Kereta Cepat Indonesia-China (PT KCIC), a joint venture between an Indonesian consortium of four state-owned companies and China Railway. (2)

Trans-Java Toll Road (2017-2024?)

The Trans-Java Toll Road is a tolled expressway network that runs from Port of Merak in Cilegon, the main link between the island of Sumatra and Java, to Banyuwangi, the eastern end of the island in Indonesia. It is the main link between the island of Java and Bali. The toll 1,167 kms (725 miles) road and is the most important toll road network in the country. The Road is also designed to form part of the international Asian Highway 2 project, which aims to connect 14,000 km of highways across 32 Asian and European countries, from Denpasar to Iran.

(1) https://www.zawya.com/en/projects/bri/construction-progress-of-jakarta-bandung-fast-train-reaches-917-of1e0sri

(2) https://thediplomat.com/2022/10/indonesia-gears-up-to-start-its-first-high-speed-rail-line/

This project has been discussed for decades, got started last century but was adversely affected by the 1997 Asian crisis: it was provided new life under President Widodo's leadership.

At the beginning of 2017, President Widodo and the government committed to full completion of the Road by the end of 2019. At the time, the government estimated 50% of the road was completed with 516 km in operation. PT Waskita Karya (Indonesian construction) was engaged to sell several sections of the toll road to fund other toll road projects.

In early 2019 the Road was officially declared open. Though many sections had already been open and operating, connecting existing roadways, the government claimed the road was now connecting Indonesia's two biggest cities; Jakarta in the West and Surabaya in the East. Several issues still remained including blockages.

In October 2019, Waskita Toll Road, a subsidiary of state-controlled construction firm Waskita Karya, has agreed to sell its interest in two sections of the Trans-Java toll road to Road King Infrastructure, a listed real estate company in Hong Kong, for a combined value of Rp 2.17 trillion or $153 million. Waskita agreed to sell all its shares in Jasamarga Solo Ngawi (JSN) who holds the concession for the Solo-Ngawi toll road until 2056, and in Jasamarga Ngawi Kertosono Kediri who holds the Ngawi-Kertosono toll road concession until 2066. (3)

Additional Financing to Fund Both Major Toll Roads

In April 2022, INA signed two agreements worth $2.7 billion to expedite the construction of toll roads on Java and Sumatra islands – with state-owned construction firms Hutama Karya and Waskita Karya -for five sections of the Trans Java and Trans Sumatra toll roads. Under the agreement, INA and its partners will invest in three sections of the Trans Sumatra toll road, and two sections of the Trans Java toll road.

Indonesia's public works ministry has said it wants to extend its 2,000-kilometre network of toll roads to 5,000 km by 2024. In 2021, INA signed a MoU to establish an investment platform with a commitment of up to US$3.75 billion for investment in the toll road sector with global strategic partners, including with the Abu Dhabi Investment Authority, APG Asset Management, and CDP (Canada). (4)

Trans-Sumatra Toll Road (2014-2023? – $33.2 billion)

Sumatra is the 2nd largest island with a population over 55 million. It plays an important role in Indonesia's overall economy (circa 20% of GDP) and led by numerous commodities. Thus, logistics are vital to the region's economic growth. As a result, in 2014 (amended 2015) the Government mandated Hutma Karya to build and develop the Trans-Sumatra Toll Road, which will connect Lampung and Aceh through 24 different roads with a total length of 2,704 km – theoretically by 2024.

The toll's entire length of 2,818 km (1,751 miles) will cost an estimated Rp476 trillion (US$33.2 billion) and consist of seventeen main segments and seven supporting segments. The toll road is expected to be completed by 2024. As of October 2022, 1,074 km (667 miles) of the road were completed and operational.

In November 2020, the CEO of Hutama Karya, which is in charge of most of the trans-Sumatra toll road sections announced there were issues which might delay its scheduled completion.The company has built 629 km of the trans-Sumatra toll road as of October, with 513 km are already in operation. The CEO said the

(3) https://jakartaglobe.id/context/waskita-sells-interest-in-transjava-toll-road-to-hong-kong-real-estate-company

(4) https://www.theasset.com/article/46540/ina-to-invest-us27-billion-in-java-and-sumatra-toll-roads

company was currently building an additional 614 km of toll road within the project, which is scheduled to be completed by 2022. "We are optimistic that we can finish construction by 2022. However, we still need to acquire land in several areas". [5]

In December 2022, Hutama Karya announced that it is targeting to complete six segments of Trans-Sumatra Toll Road (JTTS) in 2023 Kuala Tanjung – Indrapura (Section 2), Tebing Tinggi – Serbelawan (Section 3), Serbelawan – Siantar (Section 4), and Tebing Tinggi Y-Junction.

Besides that, there are several new projects that will be worked on by Hutama Karya in 2023, including infrastructure projects, building projects, as well as JTTS," he said on Thursday (15/12).

Aloysius added that the new projects included Bekasi Proving Ground PPP Project, Semarang – Demak Toll Road, as well as Karangjoang – KKT Karingau Segment of New Capital City (IKN) Toll Road.

Jakarta MRT (2019-2024? – $16+billion)

Jakarta's subway was inaugurated in 2019 as part of Jakarta's efforts to ease traffic congestion. Every day, more than 2.5M commuters travel in and out of central Jakarta. Most trips originate in Jabodetabek, or Greater Jakarta.

Funding for Each Phase

Phase 1 – project was funded through a soft loan (Rp16 trillion) (US$1.2 billion) from the Japan International Cooperation Agency (JICA) with a 30 years tenure and 0.25% interest per annum. The loan was signed in 2006 for engineering services to prepare the construction phase.

Phase 2 – was funded through a similar loan scheme with a 40 years tenure; 10 years grace period. The first stage of phase 2 funding (Rp9.4 trillion) incurred 0.1% interest per annum. Phase 2A funding (Rp25 trillion) to cover a portion of phase 1 excess expenditure (Rp2.5 trillion). In August 2022, it was announced that cost required for Phase 2A has been adjusted to Rp26 trillion ($1.7 billion), up from Rp22.5 trillion. The challenging soil conditions were cited as the reason for the increase.

Phase 3 – to be funded by a Japanese investor. In January 2023 it was announced that cost required for Phase 3 is Rp160 trillion ($10.6 billion).

Phase 4 – to be funded by a South Korean consortium led by Korea Overseas Infrastructure and Urban Development Corporation with estimates cost Rp28 trillion ($1.9 billion). [6]

In November 2022, the Indonesian Government signed three agreements with international governments to develop the planned extensions on the Jakarta Mass Rapid Transit (MRT) line. These include a memorandum of cooperation (MoC) signed with the Government of Japan for work on the line's East-West corridor. The 87-km-long East – West corridor is expected to be key in reducing congestion in Jakarta. Work will be carried out in two phases and will be funded by JICA.

A letter of intent (LoI) has also been signed with the UK Government for upcoming works on the MRT line while a MoU was signed with the Government of South Korea for works on the Phase 4 corridor, covering the section between Fatmawati and Taman Mini Indonesia Indah.

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(5) https://www.thejakartapost.com/news/2020/11/26/land-acquisition-human-capital-hamper-trans-sumatra-toll-road-development.html

(6) https://www.mottmac.com/article/62443/jakarta-mass-rapid-transit-mrt

Jakarta MRT Phase 4 will add 12 km to the urban rail network and will be integrated with the city's existing LRT Jabodebek and KCI – Commuter line. Construction on this phase is expected to commence in 2023. Once operational, around 124,000 passengers are expected to use the corridor daily. [7]

Kayan Cascade Hydropower Plant and Energy Transformation ($17.8 billion)

In October 2022 Sumitomo Corp signed an agreement with Indonesian power company Kayan Hydro Energy (KHE) to participate in the development of a 9GW hydroelectric complex in Borneo. KHE is affiliated with PowerChina (China) which will undertake the main construction work of the hydropower project named Kayan Cascade. Sumitomo will help develop the project through investment and technology transfer.

Under the MOU signed between PowerChina and KHE in 2018, PowerChina will provide $17 billion to finance the Kayan Cascade. The Kayan hydropower plant utilizes the area along the Kayan river and consists of 5 dams with 5-6 units of generating turbines per dam. The first stage of the Kayan hydropower plant has a capacity of 900 Megawatts (MW), the second stage is 1,200 MW, the third and fourth stages are 1,800 MW each, and the fifth stage is 3,300 MW, with to finish the construction of five dams by 2035. Once completed, the project is expected to become the largest hydroelectric station in Southeast Asia.

The hydropower complex will mainly supply electricity to Indonesia Strategis Industri (ISI), a green industrial park to be built in North Kalimantan. The industrial park would include a range of green businesses, including green ammonia, battery materials, and electric vehicles. Most participants in the ISI will be Chinese-Indonesian joint ventures with the possible inclusion of some Japanese manufacturers.

The Kayan Cascade is a strategic project and will be supported by the government, according to Moeldoko, Indonesia's presidential chief of staff. At present, Indonesia meets 65% of its energy demand with coal. The country has vowed to double the share of renewables in its energy mix from less than 12% to 23% by 2025, in a move to achieve its commitment to net-zero emissions by 2060.[8]

Jakarta-Surabaya High Speed Train – the Next Long-Term Plan (timing/cost?)

In November 2022, the Transport Minister stated that with the Jakarta-Bandung HSR scheduled to be completed in 2023, there are studies being conducted by the Indonesian government for the construction of the Jakarta-Surabaya HSR next, as part of a long-term and gradual plan.

The Jakarta-Surabaya High-Speed Train is projected to take the route: Jakarta – Karawang – Bandung – Kertajati – Purwokerto – Yogyakarta – Solo – Madiun – Surabaya. The train is expected to cut the Jakarta to Surabaya trip to just four hours.

In addition to the southern high-speed train, the government is planning a semi-fast train from Surabaya to the north. Jakarta has also plans for MRT and LRT, as a means of urban mass transportation, to be built in other cities, such as Surabaya, Bandung, Medan, Makassar, Semarang, and Bali.[9]

This follows on from prior agreements on Indonesian rail with Japan and China.

(7) https://southeastasiainfra.com/international-governments-ink-agreements-to-build-the-jakarta-mrt/

(8) https://www.senecaesg.com/insights/powerchina-japans-sumitomo-to-develop-usd17-bn-hydropower-plant-in-indonesia/

(9) https://www.businesstoday.com.my/2022/11/04/jakarta-surabaya-high-speed-train-is-the-next-long-term-plan/

In 2019, Indonesia and Japan signed a deal on the outline of the 700 km (435 mile) Jakarta-Surabaya medium-speed rail project after two years of negotiations, with an initial investment of 60 trillion rupiah ($4.3 billion). This project is expected to shorten the Jakarta-Surabaya train trip to 5 hours and 30 minutes, from more than 10 hours currently. Construction is scheduled to start in 2022 and finish in 2025.

In 2021, Indonesia announced it will go ahead with plans to extend construction of the Chinese-backed Jakarta-Bandung high-speed railway to Surabaya despite Japan refusing to join the enlarged project. The government has offered China an opportunity to take part in extending the rail line to Indonesia's second largest city and is open to other countries investing in this.

Tokyo had rejected Jakarta's invitation for a consortium of Japanese investors to sign on for the extended project, saying it was focused on its existing medium-speed rail project connecting the Indonesian capital to Surabaya; "They want to focus on the north line first," The Japan-backed rail project traverses the north side of Java, Indonesia's most densely populated and built-up island.

The Indonesia government, however, wants the HSR to Surabaya to pass through the south side of the island as it believes that an extension will make the project more economically viable.

Indonesia's minister for investment informed Beijing that it could build the HSR extension during a 2021 meeting with Wang Yi. [10]

Jakarta City

(10) https://www.benarnews.org/english/news/indonesian/rail-way-01192021153111.html

ASEAN 2022 IPOS- INDONESIA LED

Overview

Strong economic growth funded in part by global investors, where a couple of Indonesia's GDP growth drivers. We focus on global IPO activity, then address China and ASEAN and follow with only Indonesia. This short piece is a good example on the interconnectivity of the world's financial markets and how effectively managing a country is only half the battle in raising public capital to fuel future growth.

Global IPO Markets

After a record-breaking 2021, 2022 global IPO proceeds were down more than 70% compared to 2021. This was largely driven by a significant drop-in US IPO activity, with IPO proceeds falling more than 90% compared to 2021 together with European and UK IPO markets remaining largely closed. There were many headwinds including increased market volatility, very poor performance of many IPOs that were listed since 2021. Global equities struggled in 2022 as markets had to cope with high inflation, tightening of global monetary policies, lockdowns in Mainland China, the war in Ukraine and related energy crisis in Europe – all leading to global recession fears. [(1)]

It is worth noting that despite markedly lower issuance, the technology sector continued to lead by volume accounting for 23% of deals, while the energy sector dominated by proceeds, accounting for 22% in 2022.[(2)]

Asia Pacific IPO Markets

The APAC IPO market was hit the least by the global economic downturn and geopolitical tensions. As a whole, APAC saw a decline of 26% in volume (from 1,148 to 845) and 31% contraction in IPO total amounts ($175.4 billion decreasing to $120.6 billion).

China dominated the region. Greater China saw volumes of 468 (399 Mainland) and amounts of $98.1 billion ($85.7 to mainland). Four of the region's top 10 IPOs come from the mainland, with some of its largest SOEs (telecoms, energy, materials) completing a secondary listing back on the mainland exchange.

The largest global IPO, in terms of proceeds raised, was LG Energy Solution Ltd, which gained listing in South Korea (KRX). It raised US$10.7 billion. This is consistent with the trend that energy dominated with four of the top 10 IPOs in the region.

In ASEAN, volume increased slightly from 134 to 137, but amounts from $13.2 billion to $6.5 billion. Issuance was dominated by Indonesia (60), Thailand (32) and Malaysia – only Indonesia and Malaysia showed increases. While Thailand showed a decline in volume, it led in amounts raised by ASEAN country.

(1) https://www.ey.com/en_gl/news/2022/12/global-ipo-market-went-from-record-breaking-to-full-on-abating

(2) https://www.pwc.com/gx/en/services/audit-assurance/ipo-centre/global-ipo-watch.html

Three Largest 2022 Indonesian IPOs

PT GoTo Gojek Tokopedia (GoTo)

PT GoTo Gojek Tokopedia (GoTo), is an Indonesian holding company formed in 2021 by the merger of Indonesia's two largest tech companies; Gojek, the largest ride-hailing company and major e-commerce company Tokopedia. Both businesses have grown to be prominent participants in Indonesia's technology sector and have attracted large amounts of foreign capital for the past few years. Both were unicorns and the most valuable start-ups in South-East Asia with Gojek ranked #1.

In its April 2022 IPO, when it was officially listed on the Indonesian Stock Exchange and raised around US$1.1 billion, it became the third-largest IPO in Asia and the fifth largest in the world to date in 2022. The IPO was heavily oversubscribed, with retail investors placing orders for more than 20 times the shares available to them.

And yet, by December 2022 GoTo Group has lost 68.5% of its initial value of 400 trillion rupiah ($28 billion) since its April IPO. While the stock has ticked lower most of the year, GoTo shares sold off after pre-IPO shareholders opted out of a secondary offering following the lock-up expiration on Nov. 30. Early investors such as SoftBank and Alibaba had agreed to an eight-month lock-up period to support GoTo's stock price following its IPO.

In October, GoTo had said it was working with pre-IPO shareholders to explore a coordinated secondary offering of their shares before the lock-up expired to facilitate an orderly sale through the negotiated market. However, that did not work out. On the last day of the lock-up, GoTo said those pre-IPO shareholders decided to not proceed with the secondary offering…and the shares responded promptly.

Note, such losses are not unique to GoTo among ASEANs: Grab has lost 69% of its initial valuation of about $40 billion since its U.S. listing in December 2021 via SPAC vehicle. Indonesian e-commerce company Bukalapak declined about 70% from an initial valuation of $6 billion since its Jakarta IPO in August 2021.

In November, GoTo Group reported its nine-month accumulated losses surged from 11.58 trillion rupiah a year ago to 20.32 trillion rupiah, even as its third-quarter losses shrank with cost cuts. The group also announced in the same month that it will be laying off 12% of its workforce – or about 3,000 jobs. [3]

PT Global Digital Niaga

Global Digital Niaga is the largest listing in Jakarta since GoTo's initial sale in April 2022. Niaga is best known for its Blibli.com e-commerce platform. Blibli, an online marketplace selling a range of household and lifestyle goods, was founded in 2011. The company is backed by Djarum Group, one of Indonesia's biggest conglomerates known more for its clove-flavoured cigarette products. Global Digital Niaga also owns an online travel business and supermarket chain.

In November 2022, shares of Blibli rose 4.9% in its Indonesian stock market debut, in what was the country's second-largest IPO this year.

Shares of PT Global Digital Niaga Tbk, which owns Blibli, climbed as high as 472 rupiah in early trading, up from its IPO price of 450 rupiah per share. The company raised as much as 7.99 trillion rupiah ($509.2 million).

(3) https://www.cnbc.com/2022/12/05/indonesias-goto-valuation-plummet-since-ipo.html

Blibli is the latest tech company to list in Southeast Asia since Indonesian unicorns Bukalapak's $1.5 billion share sale in August 2021 and GoTo's $1.1 billion IPO in April 2022

We previously mentioned GoTo's major decline as well as others in ASEAN/Indonesia but had not listed Sea Limited's (Singapore), whose share price plummeted from $340 a year ago, to $48.

Similarly, GoTo, Grab and Sea Limited have grocery shopping verticals as well. Online grocery shopping took off at the height of the Covid-19 pandemic in 2020 and was one of the fastest-growing segments 2021. While these were propelled during COVID 19, will the growth be as great post COVID – near term versus far term? [4]

PT Mora Telematika

PT Mora Telematika Indonesia Tbk (MORA) started its business in 2000 as an internet service and phone card provider. The company shifted into a telecommunication infrastructure service provider in 2007, focusing on fibre-optic cable networks. It constructed the international submarine cable networks that connect Jakarta, Singapore, and Malaka after it built a subsidiary in Singapore. The company offers various services, such as segmented solutions for enterprises and government needs, connectivity services, internet services, Nusantara Data Centre, and several additional services.

In August 2022, T Mora Telematika Indonesia Tbk (MORA) or widely known as Moratelindo, gears up towards its IPO of 2.61 billion new shares in Indonesia Stock Exchange (IDX). The amount of shares issued in IPO is equal to 11% of Moratelindo's entire issued and paid-up capital. Each share is valued at IDR 100 and will be offered for a price within the range of IDR 368 to IDR 396 per share. Thus, with said price range, Moratelindo planned to gain fresh funds of IDR 1.03 trillion at most during this IPO ($67 million).

Currently, 45.71% of Moratelindo's shares are under the control of Candrakarya Multikreasi. Another 33.78% belongs to PT Gema Lintas Benua, leaving the remaining 20.51% to PT Smart Telecom. (KR/ZH).[5]

These were the only three Indonesian IPOs of significant size in 2022. As the year ended, Nusantara Sejahtera Raya, the operator of Indonesia's largest movie theatre chain Cinema XXI stated that it was considering a 2023 IPO, raising somewhere between $500 million and $1.1 billion.

The company, also known as 21Cineplex, had 1,216 screens in 226 cinemas across Indonesia under the brand name Cinema XXI as of January 2021. The company aims to grow to 2,000 screens in five years.

Other Much Smaller IPOs

The majority of Indonesian IPOs were thus quite small, circa $50,000+. We thought it be interesting including one of these smaller deals as we see it as an important component of Indonesia's healthcare network.

PT Jayamas Medica Industri (OneMed), established in 2002, is the largest manufacturing and distribution company of medical equipment and supplies in Indonesia, covering 514 cities and 34 provinces. OneMed has the most comprehensive portfolio of medical equipment and supplies in the country, with key products including syringes, medical gloves, antiseptics and disinfectants, and infusion sets.

(4) https://www.cnbc.com/2022/11/08/blibli-ipo-stock-of-e-commerce-firm-up-in-indonesia-debut.html

(5) https://www.idnfinancials.com/news/43645/moratelindo-debut-offering-shares-ipo

The medical market in Indonesia is well known for OneMed's own brand, JMI. It holds a number of certifications, including CE Mark and ISO 9001:2015, which attest to the fact that the quality of its products meets the highest international standards. Additionally, it exports its goods to neighbouring SE Asian nations. (6)

In November, ADB announced it had invested in Onemed IPO to Support National Health Care and Affordable Local Medical Supplies in Indonesia. ADB subscribed to around 1 billion shares, worth $12.2 million (approximately 190 billion Indonesian rupiah), as part of the IPO of OneMed on the Indonesian Stock Exchange. (7)

The proceeds of the IPO will support operational expansion across OneMed's value chain by doubling the manufacturing facilities from two to four, the number of national distribution centers from one to two, adding 15 warehouses, and 25 new retail stores. The availability of affordable medical equipment and supplies is critical for the sustainability and expansion of Indonesia's national health insurance program, Jaminan Kesehatan Nasional.

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members – 49 from the region.

Overall, the public equity/IPO market was still findings its new levels and the year closed.

Borobudur, Java

(6) https://themalaysianreserve.com/2023/01/31/goto-gojek-tokopedia-sizzles-indonesias-2022-ipo-scene/

(7) https://www.adb.org/news/adb-invests-onemed-ipo-support-national-health-care-and-affordable-local-medical-supplies

INDONESIA ENERGY TRANSITION: LEADERSHIP AT G20/ASEAN

Overview

Indonesia finished its year of the G20 Presidency with a successful event when it earlier looked like the G20 might fissure amid divides between its membership on the Ukraine conflict. Simply convening the G20 in Bali in 2020 had been a major and underappreciated challenge for Indonesia. That achieved, this year's G20 could be remembered for being the place where a floor was put underneath some critical bilateral relationships, while building a base for renewed multilateral cooperation on economic challenges.

G20 Global Level Commitments to Change

As 2022 drew to a close, Indonesia was focussed on its role as Presidency of the G20. At the Bali G20, its Government was active in signing a number of agreements on climate change. The first of which was launching a Just Energy Transition Partnership (JETP) developed with Indonesia during its G20 Presidency.

We set out the major points below but key highlights include:

- Indonesia's net zero power sector emissions target by ten years
- Accerate renewable energy growth to 34% by 2030
- Potentially open the door to billions of commercial banking finance

In November at the Partnership for Global Infrastructure and Investment (PGII) event at the G20 Summit, President Widodo and leaders of many International Partners Group (IPG) of likeminded countries, co-led by the United States and Japan, and including Canada, Denmark, the European Union, France, Germany, Italy, Norway, and the United Kingdom, issued a Joint Statement, launching a Just Energy Transition Partnership (JETP) developed with Indonesia during its G20 Presidency. The landmark partnership pursues an ambitious and just power sector transition in Indonesia, supporting a trajectory consistent with keeping 1.5 °C global warming limit within reach. (1)

Indonesia will work, with support from international partners, to develop a comprehensive investment plan to achieve significant new targets and policies to reduce GHG emissions and support impacted communities by:

- Peaking total power sector emissions by 2030, shifting its projected emissions peak forward.
- Capping power sector emissions at 290 megatons of CO_2 in 2030, down from baseline value of 357 MT CO_2.
- Establishing a goal to reach net zero emissions in the power sector by 2050, bringing forward Indonesia's net zero power sector emissions target by ten years.
- Accelerating the deployment of renewable energy so that renewable energy generation comprises at least 34 percent of all power generation by 2030, which would roughly double the total renewables deployment over the course of this decade compared to current plans.
- To achieve these targets, this long-term partnership intends to mobilize an initial $20 billion in public and private financing over a three-to-five-year period, using a mix of grants, concessional loans, market-rate loans, guarantees, and private investments. Contributions to the JETP include $10 billion in public

(1) https://www.eastasiaforum.org/2022/11/20/now-its-delivered-on-the-g20-indonesia-can-continue-to-lead-as-next-asean-chair/

sector pledges, and a commitment to work to mobilize and facilitate $10 billion in private investment from an initial set of private financial institutions coordinated by the Glasgow Financial Alliance for Net Zero (GFANZ), including Bank of America, Citi, Deutsche Bank, HSBC, Macquarie, MUFG, and Standard Chartered. The partnership will also leverage the expertise, resources, and operations of the multilateral development banks. [2]

A successful partnership is expected to help shift Indonesia's power sector peaking date forward by approximately seven years and result in a cumulative reduction of more than 300 megatons in greenhouse gas emissions through 2030 and a reduction of well above 2 gigatons through 2060 from Indonesia's current trajectory.

Indonesian President Joko Widodo stated that "Indonesia is committed to using our energy transition to achieve a green economy and drive sustainable development. We are grateful for the cooperation and the support from our international partners to realize its full implementation that will accelerate this transition. This partnership will generate valuable lessons for the global community and can be replicated in other countries to help meet our shared climate goals through concrete collaborative actions."

President Biden emphasized the importance of this partnership, saying, "Indonesia has shown tremendous leadership and ambition throughout the development of this partnership.

- Japan's Prime Minister Kishida Fumio said, "Japan welcomes the launch of the Partnership, which supports Indonesia's commitment towards the 1.5 degree target.
- Prime Minister of Canada Justin Trudeau said, "Developing clean energy is a central part of addressing climate change and moving to a more secure, sustainable, and strong economy.
- President of the European Commission, Ursula von der Leyen said, "The Just Energy Transition Partnership for Indonesia will chart a roadmap to a greener, cleaner future in.
- Emmanuel Macron, President of France – "France is proud to be part of this ambitious partnership to support Indonesia's commitment to reach carbon neutrality to boosting the deployment of renewable energy.
- German Chancellor Olaf Scholz said, "At the G7 Summit in Elmau, the G7 and international partners pushed forward Just Energy Transition Partnerships. Our progress together with Indonesia is strong.
- Italy's Prime Minister Giorgia Meloni said, "Italy is proud to be part of the Just Energy Transition Partnership, an ambitious platform that will provide substantial financial resources and technical.
- Jonas Gahr Støre, Prime Minister of Norway. "Norway is delighted to be able to contribute to this partnership and support Indonesia's effort to speed up the energy transition.
- UK Prime Minister Rishi Sunak said, "I am proud to launch a new Just Energy Transition Partnership with the Government of Indonesia. This will unlock billions in private finance.

Major Individual Country Agreements – UAE

Also during November 2022, the UAE and Indonesia to boost co-operation in the energy sector where the focus will be to encourage investment and commercial activities in the energy and mineral resources sectors. The two countries signed a declaration of intent to encourage co-operation between government entities as well as private and government-owned companies.

(2) https://www.whitehouse.gov/briefing-room/statements-releases/2022/11/15/indonesia-and-international-partners-secure-groundbreaking-climate-targets-and-associated-financing/

They will focus on encouraging investment and commercial activities and establishing joint projects in both countries. The agreement includes developing technology related to the energy sector, including carbon capture and storage, biofuel and others.

The development came after a joint meeting between the officials of the two countries at the Abu Dhabi International Petroleum Exhibition and Conference. The meeting was chaired by Sharif Al Olama, undersecretary of the UAE's Ministry of Energy and Infrastructure for Energy and Petroleum Affairs, and Tutuka Ariadji, director general of oil and gas at Indonesia's Ministry of Energy and Mineral Resources.

The latest collaboration between the two countries comes as the UAE and Indonesia focus on strengthening trade and economic ties. In July 2022, the two nations signed a Comprehensive Economic Partnership Agreement as they aim to increase mutual non-oil trade to $10 billion in the next five years from $3 billion currently.

The UAE is also increasing its investments in Indonesia, specifically related to energy;

- In 2020, Adnoc signed a preliminary agreement with Indonesia's Pertamina and Chandra Asri to explore the possibility of developing a crude-to-petrochemicals complex in Indonesia.
- Abu Dhabi's clean energy company Masdar also signed a power-purchase agreement with Indonesia's state electricity company, Perusahaan Listrik Negara, to develop the country's first floating solar photovoltaic plant.

Indonesian state-owned agro-chemicals company PT Pupuk Indonesia, is also expanding its operations to the UAE and opened its representative office in Dubai in November. The company is looking for trade opportunities in ammonia, urea and other products. [3]

Major Individual Country Agreements – Saudi

Finally, in November 2022, Saudi Arabia signed a MoU with Indonesia to cooperate in energy fields. Signed on the side-lines of the G20 summit meetings currently being held in Bali, the MoU aims to enhance cooperation in the fields of oil and gas, electricity, and renewable energy.

The understanding will also encompass energy efficiency, clean hydrogen, the application of the circular carbon economy and its technologies to reduce the effects of climate change, digital transformation, innovation, cybersecurity, and artificial intelligence in the field of energy.

Cooperation will be achieved through exchanging information and experiences in areas related to the MoU, exchanging visits between experts and specialists, and organizing conferences, seminars, and working sessions.

It also entails conducting joint studies and working to develop qualitative partnerships between the two countries to localize materials, products and services, and supply chains and their technologies.

Saudi Arabia's Crown Prince Mohammed bin Salman arrived in Indonesia on Tuesday to participate in the G20 summit as leaders gathered to discuss a number of issues facing the world, including the war in Ukraine, a global economic downturn, and food security, among other topics.

(3) https://www.thenationalnews.com/business/economy/2022/11/03/uae-and-indonesia-to-boost-co-operation-in-energy-sector/

In September, Saudi Commerce Minister Majid Al-Qasabi met Indonesia's Trade Minister Zulkifli Hasan on the side-lines of the G-20 trade, investment and industry working group meeting in Bali.

The two sides agreed on a road map, with periodic follow-ups, for boosting trade exchanges between the two countries, the Saudi Press Agency reported.

The ministers also discussed ways to enhance and support the business sector to aid the development of trade relations, and ways to take advantage of the opportunities available in the two countries and turn them into tangible partnerships.

In October, Indonesia was looking to exchange resources with Saudi Arabia to boost the production of electric vehicles and strengthen energy cooperation, a top Indonesian business leader revealed.

Speaking to Arab News on the side-lines of the Future Investment Initiative forum in Riyadh, Arsjad Rasjid, chairman of the Indonesian chamber of commerce, said the Southeast Asian country supplied more than 40 percent of the world's nickel, heavily used in e-vehicle batteries, and had an array of energy facilities.

"This is where Saudi Arabia, with the capital and technology, and Indonesia can work together," he added. "There is interconnectivity here on the level of electric vehicle ecosystems that can be synergized between Saudi and Indonesia." [4]

In February 2023 – after successfully running the G20 Presidency in 2022, Indonesia is taking global leadership by assuming the ASEAN Chairmanship and ASEAN+3 Co-Chairmanship for 2023. The theme of Indonesia's ASEAN Chairmanship is "ASEAN Matters: Epicentrum of Growth", which is a continuum the previous Indonesia's G20 Presidency theme "Recover Together, Recover Stronger" [5]. Indonesia's chairmanship aims to drive ASEAN to play an active role, exploring ideas and solutions to strengthen economic recovery and make Southeast Asia an engine of sustainable economic growth.

It should be noted that there were numerous investments by Qatar into Indonesia in 2022, but most were outside of energy.

(4) https://www.arabnews.com/node/2200796/business-economy

(5) https://fiskal.kemenkeu.go.id/publikasi/siaran-pers-detil/462

INDONESIA'S INA SWF – A DIFFERENT SORT OF SWF

Background and Overview

Indonesia launched its sovereign wealth fund (SWF), the Indonesia Investment Authority (INA) in February 2021 only a year after the idea was first made public by Indonesian President Widodo. Indonesia is a late comer to the SWF party as its neighbours, Singapore (Temasek was launched in mid 1970s) and Malaysia (launched in 1993), both have lengthy track records, and, in the case of Singapore, vastly different AUMs. It is our understanding that before launching INA, Indonesia worked closely with the UAE to construct a SWF which would combine domestic and foreign financial resources and invest in economic projects (UAE has 3 SWFs, including globally known ADIA.

In contrast to many highly visible international SWFs, Indonesia's was designed to firmly focus on domestic development. More precisely, the government aimed to strengthen Indonesia's productive base and sustainable development. One of INA's key roles is to purchase attractive assets from infrastructure-related state enterprises, which have built up large debts since the government actively mobilised them in the mid-2010s. Through this process, state enterprises will eventually be able to use the proceeds to strengthen balance sheets to then conduct more development projects.

Unlike other SWFs, and despite Indonesia's wealth of natural resources, the INA made the decision to reach out to foreign co-investors to capitalize the fund rather than rely using its cash generated own commodities related revenues like their peer SWFs. With the aforementioned goals, this structure puts pressure on governance to receive optimal risk adjusted returns and still grow the business. This pressure was addressed via the two-tier Board across a number of disciplines. At launch, INA had initial capital of $5.4 billion including Indonesian injections of $4.2 billion; $1.05 billion via a state capital injection (PMN) from its 2021 state budget and Rp45tn ($3.16 billion) in equity from Bank Mandiri and Bank Rakyat Indonesia. Ultimately, the government wants INA to grow to over $100 billion in AUM.

By the end of 2021, INA had also managed to sign $20 billion in co-investment pledges[1]:

- $2.0 billion investment by the USA International DFC
- $10.0 billion UAE previously promised
- $ 4.0 billion Japan Bank for International Cooperation (JBIC).
- $3.73 billion; In May 2021 INA signed agreements for a new toll road investment platform with three foreign investors ($1 billion each): ADIA (UAE), APG (Netherland)s, and Caisse de dépôt et placement du Québec (CDPQ) Canada. INA will invest $750 million

2022

Inbound into INA – According to various press reports, INA add circa $3.9 billion in investments from investors in 2022 (primarily from pension funds and SWFs), according to an estimate by research consultancy Global SWF as set out below. [2]

(1) https://www.zawya.com/en/world/china-and-asia-pacific/indonesian-sovereign-wealth-fund-draws-20bln-in-co-investments-exjxne2w

(2) https://www.asianinvestor.net/article/swfs-pensions-commit-3-9bn-to-indonesia-in-2022/482774

July – China's Silk Road Fund (SRF) announced that it will invest 20 billion yuan ($2.99 billion) into Indonesia through its first investment into INA. The joint agreement targets all business sectors open to foreign investments in SEA's largest economy.

November – CATL (China) and CMB International Capital Corporation Limited (CMBI) signed a MoU with INA to carry out investment, fund establishment and other cooperation in the NEV supply chain for up to $2 billion. "Most of it will be in Indonesia, for the electric vehicle production supply chain," INA CEO Ridha Wirakusuma said. "In 4 years, more than 50% of all vehicles sold will be electric vehicles. It is undeniably that an end-to-end value chain for EV is huge. Between 2030 and 2035, all cars are expected to be 100% electric."

Indonesia, the world's largest nickel is a critical ingredient in lithium-ion battery cells used in most NEVs producer. Indonesia produced 800,000 tons of nickel in 2019, up from 606,000 tons in 2018 and in the next decade, could become the largest supplier of refined nickel, with more than 50% of the world's nickel refined output.

December – The Indonesia Investment Authority signed an agreement with the Investment Fund for Developing Countries (IFU) of the Kingdom of Denmark for potential joint investments of up to $500 million. The framework agreement will explore investment opportunities in green energy transition and inclusive social development in Indonesia. INA and IFU seek to provide capital to green and sustainable projects in the range of $100 million.

Outbound from INA

September – a consortium of INA, BlackRock, Allianz Global Investors and other investors signed a $300 million financing facility with on-line Indonesia travel agency Traveloka to help support the development of an online ecosystem.

December – SRF and INA announced that they will become investors in SEA's pharmaceutical firms; the listed pharma firm PT Kimia Farma Tbk ("KAEF") and its subsidiary PT Kimia Farma Apotek ("KFA") with a strategic minority equity stake sale to a consortium of investors for $120 million. SRF and INA's investment is purposed towards funding KAEF and KFA's strategic business expansion plans, working capital needs and initiatives to strengthen operational efficiency. The investment will also enable KAEF to expand their business operations internationally.

Conclusion

Since INA's launch, the world's financial markets have been less than stable led by global political instability. That said, it appears that INA now has raised $9 billion for the fund (Malaysia only has $30 billion since its 1993 launch) plus an additional $20+ billion in LP co-investment funds. It is vital that this momentum at least continues if not increases during these important infrastructure build years.

(3) https://indonesiabusinesspost.com/risks-opportunities/indonesia-investment-authority-inks-deal-with-catl-cmb-international-on-us-2-billion-in-evs

(4) https://www.swfinstitute.org/news/95016/indonesia-investment-authority-sign-investment-framework-deal-with-denmarks-investment-fund-for-developing-countries

(5) https://www.ifu.dk/en/news/indonesia-investment-authority-and-ifu-sign-investment-framework-agreement/

NUSANTARA - HUGELY ASPIRATIONAL

Overview

Since so many column inches have been written on this story, we will brief with the background and focus on developments over the past few months.

As readers will have seen over the past two years, in 2019, President Widodo announced his vision that Indonesia would have a new capital city, Nusantra (IKN). Although the idea of moving Indonesia's capital city from Jakarta was initially raised by Soekarno, the first president of the Republic of Indonesia, who was keen to move the centre of government to Palangkaraya, Central Kalimantan, Widodo took the leap of announcing it.

Once completed, Nusantara (now in a rainforest nearly four times larger than Jakarta) and be transformed into Indonesia's new administrative centre to include a 6.6-hectare government zone presidential palace, the central government headquarters, housing districts for government workers, and headquarters for the military and police personnel. Additional infrastructure will include roads, Infrastructure ports and airports as well as tech (IoT/AI)/digitisation in TMT and healthcare.

Nusantara is designed to be completed by 2045, the year of 100th anniversary of Indonesia's independence. This is also the same year while Indonesia's GDP rises to #5 in the world – the same as today's global population rank. In 2045, Indonesia's gross domestic product (GDP) per capita is projected at US$23,119, representing high-income status. [1]

Substantially improve Jakarta's logistics/GDP

Jakarta, home to over 10 million people and over 15% of Indonesia's GDP, is overcrowded with traffic jams, troubled by flooding and sinking fast. Moving Indonesia's administrative centre to Borneo Island, some 1,200 km northeast should improve Jakarta's logistics and help improve GDP growth. Indonesia hopes to move up to 1.9 million people to Nusantara by 2045. By then, the government hopes that Nusantara will host more than 4.8 million jobs in sectors like technology, petrochemicals and renewable energy. [2]

Financing-a Big Challenge

Nusantara is a $34 billion project, with 80% of the funding coming from external investors. Over the past couple of years, there were discussions in which it appeared that Softbank would lead with a $20 billion investment. This fell over during March 2022. In a December interview Investment Minister Bahlil Lahadalia stated that the two parties could not agree financial terms.

Also, during this interview, he assured that in spite of SoftBank's exit, the Nusantara city project will still attract the interest of many investors. To date, a number of global investors have committed to investing; "The Nusantara city already has investors, from the UAE ($10 billion), China, several European countries, Taiwan, South Korea – they are there", the Minister said.

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(1) https://en.antaranews.com/news/257677/ikn-nusantara-as-a-milestone-for-indonesias-civilization https://en.antaranews.com/news/265599/minister-reveals-reason-softbank-pulled-out-of-nusantara-city-project

(2) https://www.straitstimes.com/asia/se-asia/ambitious-plans-to-build-indonesia-brand-new-capital-city-are-falling-apart

However, in a December 2022 expose' Bloomberg pointed out that not one foreign party–state-backed or private–had entered into a binding contract to fund the project. While some potential investors have signed letters of intent… there's no firm commitment to actual spending. When asked for comments, the president's spokesperson referred to a speech on Dec 2, where Mr Widodo said that interest in investing in the new capital's core area was 25 times oversubscribed. However, the speech didn't specify whether binding contracts have been signed. (3)

Previously, in September 2022, Saudi Arabia said that it would invest Nusantara through an existing $10 billion funding commitment to the Indonesia Investment Authority. (4)

Phase 1 Development

In order to celebrate Indonesia's Independence Day in August 2024, President Widodo ordered his Cabinet to complete existing infrastructure projects by 2024(initial ones funded by the Indonesian Government), and to prioritise permits to accommodate many of the 14,500 government employees move as early as 2024.

At the end of October 2022, Indonesia tested the sea route from Balikpapan to Penajam Paser Utara, (the location of IKN), in order to follow the logistics route for the new capital to ensure that this connectivity works.

In January 2023, Indonesia passed a law paving the way for relocating its seat of government to Borneo. In addition, Indonesia announced that in order to facilitate relocation from Jakarta to Nusantara, it plans to begin construction on 184 residential towers in Q2 2023 on a $2.1 billion project on a PPP basis. According to Bambang Susantono, Nusantara National Capital Authority officials are in discussions with three private developers; Korea Land and Housing Corp (South Korea), Chinese developers CCFG Corp (China) and Risjadson Brunsfield Nusantara (RNB), and local developer PT Summarecon Agung, with CCFG-RNB leading the funding.

Also in mid-January, Malaysian Prime Minister Anwar Ibrahim visited Jakarta in his first overseas trip, during which there were a number (11) of commitments and agreements signed in manufacturing, renewable energy, pharmaceuticals and property/real estate (total potential value of 1.66 billion ringgit ($380 million).(5)

The combination of low returns for infrastructure projects, combined with geopolitical instability and Indonesia's own reputation in delivering major projects on schedule – mass transit and delays on hydropower projects in Borneo's jungle (still no dams built after 8 years) makes financing for Nusantara far from a certainty.

(3) https://www.bloomberg.com/news/newsletters/2022-12-05/big-take-indonesia-s-plan-to-build-a-new-capital-city-is-falling-apart

(4) https://www.arabnews.com/node/2154581/world

(5) https://www.scmp.com/week-asia/opinion/article/3206592/indonesias-nusantara-project-could-help-lay-foundation-aseans-economic-potential

INDONESIA'S POSITIVE INVESTMENT LIST: SECTORS OPEN AND RESTRICTED TO FOREIGN BUSINESSES

Indonesia's Positive Investment List allows foreign investment in over 200 business sectors, including transportation, energy, and telecommunication. Foreign investors can fully own a business in these sectors unless subject to specific limitations. The positive investment list classifies business fields into four categories, which are priority sectors, business fields with specific requirements, business fields open to large enterprises with compulsory partnerships, and business fields fully open to foreign investment. There are fiscal and non-fiscal incentives available for priority sectors. Investors seeking to expand their operations in Southeast Asia can scrutinize the sectoral requirements listed below.

Indonesia's Presidential Regulation 10 of 2021 as amended to President Regulation No. 49 of 2021 (PR 49/2021) liberalizes many business sectors for foreign investment. Dubbed the positive investment list, PR 49/2021 liberalizes over 200 business lines, including transportation, energy, and telecommunication.

The general principle under the positive investment list is that a business sector is open to 100 percent foreign investment unless it is subjected to a specific type of limitation. The regulation presents one of the greatest liberalizations in foreign ownership limitations in Indonesia since the negative investment list was first introduced in the 1980s.

The design of Indonesia's positive investment list

1. The government has classified business fields into four categories.
2. Priority sectors;
3. Business fields that stipulate specific requirements or limitations;
4. Businesses fields open to large enterprises, including foreign investors, but are subject to a compulsory partnership with cooperatives and micro, small, and medium-sized enterprises (MSMEs); and
5. Business fields that are fully open to foreign investment.

Priority sectors

To classify as a priority sector, business enterprises must meet the following criteria:

- Must be labor intensive;
- Must be capital intensive;
- Must be part of a national project/program;
- Must be export-oriented;
- Must involve a pioneer industry (renewables, oil refining, metals, etc.);
- Must utilize advanced technologies; and
- Must implement research and development activities.

There are 246 business fields under this category of the positive investment list. Moreover, businesses in priority sectors are eligible for a range of fiscal and non-fiscal incentives.

Fiscal incentives include a 50 percent corporate income tax reduction for investments between 100 billion rupiah (US$6.9 million) and 500 billion rupiah (US$34.9 million) for a period of five years and 100 CIT reduction for investments over 500 billion rupiah (US$34.9 million) for a period between five and 20 years. In addition, there are tax allowances available in the form of a reduction in the taxable income of 30 percent of the total investment for six years, a special withholding tax rate on dividends of 10 percent, and tax losses carried forward for up to 10 years.

Examples of non-fiscal incentives are the provision of supporting infrastructure, simplified business licensing procedures, and the guaranteed energy supply and raw materials. We explore a few examples of the prioritized business lines and their incentives below.

Examples of Priority Business Sectors and their Incentives

Business line	Incentive type
Textile and garment industry	Tax allowance and investment allowance
Pharmaceutical industry	Tax allowance
Digital economy (hosting, data processing etc.)	Tax holiday
Geothermal (exploring and drilling)	Tax allowance
Cooking palm oil industry	Tax allowance
Iron and steel industry	Tax allowance
Automotive industry	Tax allowance
Oil and gas refinery	Tax holiday
Cosmetics industry	Tax allowance
Coal gasification	Tax allowance

Business fields that stipulate specific requirements or limitations

Under this category, business fields are open to foreign investments but are subject to the following types of restrictions:

- Lines of business reserved for domestic investors;
- Lines of business subject to foreign ownership limitations;
- Lines of business that require special licenses; and
- Other investment requirements, namely business lines that are restricted and strictly supervised as well as regulated in separate laws and regulations in the field of alcoholic beverage control and supervision.
    - » The business lines include:
    - › Wholesale trade of alcoholic beverages (importers, distributors, and sub-distributors);
    - › Retail trade of alcoholic beverages; and

Business Fields with Specific Requirements	
Business fields	**Requirements**
Publishing of newspapers, magazines (press)	100 percent domestic capital required for establishment, and up to 49 percent foreign capital ownership for business development and expansion
Private broadcasting agency	100 percent domestic capital required for establishment, and up to 20 percent foreign capital ownership for business development and expansion
Subscription based broadcasting agency	100 percent domestic capital required for establishment, and up to 20 percent foreign capital ownership for business development and expansion
Postal services	Maximum foreign capital ownership of 49 percent
Domestic scheduled air transportation	Foreign capital ownership of 49 percent. However, domestic capital ownership needs to be the single majority
Domestic non-scheduled air transportation	Foreign capital ownership of 49 percent. However, domestic capital ownership needs to be the single majority
Air transport activities	Foreign capital ownership of 49 percent. However, domestic capital ownership needs to be the single majority
Domestic passenger liner and tramp activities	Maximum foreign capital ownership of 49 percent
Domestic sea transport for tourism	Maximum foreign capital ownership of 49 percent
Domestic liner and tramp sea freight for goods	Maximum foreign capital ownership of 49 percent
Domestic sea transportation for special goods	Maximum foreign capital ownership of 49 percent
Pioneer domestic sea transportation of goods	Maximum foreign capital ownership of 49 percent
Domestic sea transportation using public shipping	Maximum foreign capital ownership of 49 percent
Overseas liner and tramp sea freight for goods	Maximum foreign capital ownership of 49 percent
Overseas sea transportation for special goods	Maximum foreign capital ownership of 49 percent
Interprovincial sea public transport	Maximum foreign capital ownership of 49 percent
Interprovincial sea public transport (pioneering)	Maximum foreign capital ownership of 49 percent
Interprovincial city/regency public transport	Maximum foreign capital ownership of 49 percent
Interprovincial city/regency public transport (pioneering)	Maximum foreign capital ownership of 49 percent
Inter-city and regency public transport	Maximum foreign capital ownership of 49 percent
River and lake transportation with non-fixed and irregular routes	Maximum foreign capital ownership of 49 percent
River and lake transportation with non-fixed and irregular routes for tourism	Maximum foreign capital ownership of 49 percent
River and lake transportation for general goods and/or animals	Maximum foreign capital ownership of 49 percent
River and lake transportation for special goods	Maximum foreign capital ownership of 49 percent
River and lake transportation for dangerous goods	Maximum foreign capital ownership of 49 percent
Weapons equipment industry	Capital ownership based on approval from Ministry of Defense

Business Fields with Specific Requirements	
Business fields	**Requirements**
Horticulture	Maximum foreign capital ownership of 30 percent
Traditional medical products (for humans)	100 percent domestic capital
Fish processing industry	100 percent domestic capital
Wood-based building products	100 percent domestic capital
Coffee processing industry that already acquire geographical indications	100 percent domestic capital
Ship industry • Outriggers; and • Traditional vessels	100 percent domestic capital
Traditional handicrafts	100 percent domestic capital
Traditional cosmetics	100 percent domestic capital
Raw materials for traditional medicine (for humans)	100 percent domestic capital
Batik industry	100 percent domestic capital
Crackers and chips industry	100 percent domestic capital
Hajj and Umrah activities	100 percent domestic capital and must be Muslim

The foreign ownership limitations (bullet point 2) do not apply in the following circumstances:

- The investments are conducted in special economic zones;
- Investments are in the form of non-direct investments taken through the Indonesian stock exchange;
- Investments subject to more favorable treatment under a treaty between Indonesia and the investor's country of origin; or
- Any investments approved prior to the issuance of the positive investment list. The positive investment list provides for this through a 'grandfathering policy'.

Business fields open to foreign investors but subject to a compulsory partnership with MSMEs

Business fields under this category are open to foreign investors or large-scale enterprises through a compulsory partnership agreement with an MSME. There are 106 business lines for this category, being:

- Business lines that do not use advanced technology;
- Are labor-intensive businesses, characterized by a special cultural heritage; or
- The capital for the business' activities does not exceed 10 billion rupiah (US$701,000).

Further, they cover businesses that are commonly carried out by MSMEs and/or sectors that have the potential to enter the larger supply chain. The partnership arrangement can be in the form of operational cooperation, profit sharing, subcontracting, outsourcing, or distribution.

Businesses open to 100 percent foreign investment

The following business fields are open to 100 percent foreign investment:

- Oil and gas construction;
- Onshore upstream oil installation;
- Onshore and offshore distribution pipelines;
- Onshore and offshore oil and gas drilling service;
- Oil and gas well maintenance service;
- Electricity generation;
- Construction of electricity installation;
- Geothermal electricity generation;
- Supermarkets (with areas less than 1,200 sqm);
- Department store (with areas between 400 – 2,000 sqm);
- Ports;
- Airport and airport supporting services;
- Maritime cargo handling;
- Telecommunication;
- E-commerce;
- Pharmaceutical industry; and
- Hospitals.

What business activities are closed for investments?

There are six business sectors closed for investments for both domestic and foreign companies. These are:

- Class-I narcotics and cultivation;
- All forms of gambling and/or Casino activities;
- Fishing of endangered species;
- Utilization of corals found in nature for the production of jewelry, souvenirs, building materials, etc.;
- Chemical weapons production;
- Alcoholic beverage manufacturing;
- Manufacturing of beverages containing alcohol-wine;
- Manufacturing of beverages containing alcohol-malt; and
- Industrial ozone-depleting substances industries and industrial chemicals.

INCENTIVES FOR DOING BUSINESS IN INDONESIA

Indonesia has enhanced and improved the incentives offered to businesses in a bid to spur foreign and domestic investments into the country. These incentives include long-term tax reductions for major investments, no import/ excise duties, and a simplified immigration process.

Indonesia has in recent years enhanced and improved the incentives offered to businesses in a bid to spur foreign and domestic investments into the country. This was apparent when Government Regulation in Lieu of Law No. 2 Year 2022 was launched as possibly one of the most significant economic reforms since 1998. The Law removes more than 70 labor, tax, and other key laws to reduce bureaucratic inefficiencies, simplify business licensing requirements, and liberalize more industries for foreign investors.

Tax incentives for investments in priority sectors

Companies that invest a certain amount in one of the 246 priority business lines will be afforded fiscal and non-fiscal incentives.

Fiscal incentives include a 50 percent corporate income tax reduction for investments between 100 billion rupiah (US$6.6 million) and 500 billion rupiah (US$33.3 million) for a period of five years and a 100 percent CIT reduction for investments over 500 billion rupiah (US$33.3 million) for a period between five and 20 years.

In addition, there are tax allowances available in the form of a 30 percent reduction in the taxable income on the total investment for six years, a special withholding tax rate on dividends of 10 percent, and tax losses carried forward for up to 10 years.

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Cosmetics industry	Tax allowancev
Coal gasification	Tax allowance

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- Must be labor intensive;
- Must be capital intensive;
- Must be part of a national project/program;
- Must be export-oriented;
- Must involve a pioneer industry (renewables, oil refining, metals, etc.);
- Must utilize advanced technologies; and
- Must implement research and development activities.

Tax allowance for investments in specific sectors and regions in Indonesia

Indonesia's Government Regulation 78 of 2019 (GR 78/2019), sets out a variety of income tax incentives for businesses investing in specific provinces (such as Aceh, Greater Jakarta, and Riau) and industries, such as marine and fisheries, pharmaceuticals, IT, and energy, among others, in the country.

These incentives come in the form of tax deductions, the accelerated depreciation of fixed tangible assets, and the accelerated amortization of intangible assets. The regulation also increases the period for fiscal loss compensation, in addition to setting the income tax rate on dividends for foreign taxpayers at 10 percent.

Deduction in net income of the total investment

The government offers a deduction of the net income by 30 percent of the total investment value. This is charged at five percent per year for six years, in the form of intangible assets, including land.

Accelerated depreciation of tangible fixed assets

The government allows accelerated depreciation of tangible assets, calculated as follows.

Type of fixed tangible asset	Benefit period	Depreciation rates and method	
		Straight line method	Declining balance method
Non-buildings			
Category I	2 years	50%	100%
Category II	4 years	25%	50%
Category III	8 years	12.5%	25%
Category IV	10 years	10%	20%
Buildings			
Permanent	10 years	10%	–
Non-permanent	5 years	20%	–

Accelerated amortization of intangible assets

The government allows the accelerated amortization of intangible assets, as calculated below.

Type of fixed intangible asset	Benefit period	Amortization rate	
		Straight line method	Declining balance method
Non-building			
Category I	2 years	50%	100%
Category II	4 years	25%	50%
Category III	8 years	12.5%	25%
Category IV	10 years	10%	20%

Compensation for losses

There is also compensation available for losses of more than five years but for no more than 10 years.

However, an additional one-year of compensation is granted if investors implement one of several options laid out in the regulation. These are:

- Invest in a sector and region as stated under GR 78/ 2019;
- Invest in industrial or bonded zones;
- Engage in activities related to renewable energy;
- Assign 10 billion Rupiah (US$650,745) on social infrastructure programs;
- Utilize at least 70 percent of domestic raw materials or components by the second year of operations; or
- Employ at least 300 local workers and maintain this number for four consecutive years.

To gain a further two-year extension, investors can:

- Employ 600 Indonesians and maintain this number for four consecutive years;
- Assign at least five percent of their total investment value to research and development aimed at improving their products or services; or
- Export at least 30 percent of their total sales in a fiscal year (applies to specific sectors and are not located in bonded zones).

Reduction in income tax on dividends

Investors can also receive a reduction on their income tax on dividends at a rate of 10 percent. This can be lowered even further if there is an applicable double tax avoidance agreement in place.

Tax incentives for investments in labor-intensive industries, training programs, and R&D

Indonesia's government provides tax incentives for investments in labor-intensive industries, training programs for local workers, as well as for research and development (R&D) activities.

Labor intensive industries

Taxpayers that invest or expand into labor-intensive or pioneer industries can enjoy a net income reduction of 60 percent of their total investment in the form of tangible fixed assets, which includes any land used for the main business activities over a certain period.

The Ministry of Industry defines a labor-intensive industry as one that employs a minimum of 200 workers with labor costs not exceeding 15 percent of production costs, while the Ministry of Finance defines a pioneer industry as one that provides value-added economic consequences to the surrounding areas, introduces new technologies, and provides strategic value for the national economy.

R&D activities

Taxpayers that engage in R&D initiatives can receive a tax facility of 300 percent in gross income reduction of total costs incurred. To avail of this facility, the taxpayer must be conducting R&D that is assessed by the government to be advancing the national economy, new industries, and technologies, or transfer of foreign technology to local businesses.

The maximum 300 percent tax facility covers the following:

- 100 percent reduction on gross revenue for costs of conducting the R&D activities; and
- A maximum 200 percent additional reduction to the gross revenue incurred to conduct the R&D activities within a certain period. This is as follows:
    - » 50 percent reduction if the R&D generates intellectual property (IP) rights such as in the form of a patent;
    - » 25 percent reduction if the R&D generates IP rights that are registered domestically as well as abroad;
    - » 100 percent reduction if the R&D reaches commercialization; and
    - » 25 percent reduction if the R&D generates IP rights in the form of a patent as defined in (a) and (b), and/or reaches the commercialization stage if the R&D activity is carried out in collaboration with Indonesian R&D institutions or higher learning institutions.

Training programs

Investors looking to start apprenticeship programs or training activities to develop workers based on 'certain competencies' can receive a gross income reduction of up to 200 percent of the total costs incurred. The regulation defines certain competencies as developing human resources that can meet the labor requirements needed by national industries and businesses.

Incentives in Indonesia's special economic zones

Indonesia aims to make its special economic zones (SEZs) a policy priority to attract foreign investment, boost industrial activity, and promote job creation. This strategy has been further facilitated through various incentive programs available throughout the special economic zones in Indonesia.

Exemption on corporate income tax

Business stakeholders in an SEZ are differentiated into two types of taxpayers: badan usaha (business entities) and pelaku usaha (businesspersons).

Both business entities and business players are eligible for a 100 percent reduction in corporate income tax (CIT) provided that their investments are conducted in SEZs and with a minimum investment value of 100 billion rupiah (US$7 million), for 10 years.

Corporate Income Tax Holidays for Special Economic Zones in Indonesia		
Taxpayer	**Investment amount**	**Concession period (years)**
Business entity	100 billion rupiah (US$7 million)	10
Businessperson	Between 100 billion rupiah (US$7 million) to 500 billion rupiah (US$35 million)	10
	Between 500 billion rupiah (US$35 million) to 1 trillion rupiah (US$70 million)	15
	More than 1 trillion rupiah (US$70 million)	20

After the CIT mentioned above incentives expire, taxpayers are eligible for a 50 percent CIT reduction payable for the subsequent two years. Further, during the concession period, no withholding tax (WHT) is applied to eligible income, such as income from land and building rental.

Corporate income tax allowance

Taxpayers that invest 100 billion rupiah (US$7 million) are also eligible to receive several CIT allowances. These are:

- A 30 percent reduction in net income on the total investment on fixed assets reduced over six years over six years, at five percent per year;
- Accelerated depreciation allowances of up to 100 percent of tangible and intangible assets;
- A WHT rate of 10 percent, or the treaty rate (whichever is lower) on dividend payments made to non-resident recipients; and
- Tax loss is carried forward for up to 10 years.

Import and excise duties

Import duties, tax on the importation, and excise duties are all exempted on the following dutiable/taxable goods:

- Capital goods used for the construction or development of SEZs for five years; and
- For the entry of consumable raw materials for service industries (for tourism SEZs); and
- Entry of goods to be sold in shops and shopping centers (for tourism SEZs).

VAT and sales tax on luxury goods

VAT will not be collected in relation to the following activities:

- The import of taxable tangible goods into an SEZ by a business entity;
- The delivery of taxable tangible goods from another Indonesian free trade zone, customs area, or bonded storage facilities to a business entity;
- The delivery of taxable services or goods, including land or buildings by a business entity in an SEZ to another business entity in the same or another SEZ; and
- The import of consumer goods into a tourism SEZ.

The non-collection of VAT also applies to raw materials needed to produce taxable services or goods related to ship and aircraft maintenance, repair, and overhaul (MRO) activities.

Right of foreigners to own apartments and landed houses in special economic zones

Indonesia has made it easier for foreigners to own real estate in special economic zones, free trade zones, industrial zones, or other economic zones (tourism zones, suburban zones, or urban zones).

The properties owned by foreigners are subject to certain restrictions such as:

- Minimum price;
- Land area and number of apartment units;
- Residential zoning; and
- Land space.

The minimum price for landed houses and apartment units varies between provinces.

Immigration

There is special treatment for foreign workers in special economic zones. Foreign workers can obtain temporary resident status for themselves and their families, and they could obtain permanent resident status if they hold property in the SEZ.

Business licenses

The Indonesian government has eased the issuance of business licenses through the Online Single Submission website for investors operating in SEZs.

Right to use, right to build, and right to cultivate for foreign investors

There are several land titles that foreign investors should be aware of. These are:

- Right to manage (Hak Pengelolaan, HPL);
- Right to cultivate (Hak Guna Usaha, HGU);
- Right to use (Hak Pakai, HP);
- Right to build (Hak Guna Bangunan, HGB)
- Right of ownership over stacked units (Hak Milik Atas Satuan Rumah Susun, HMSRS);
- Rights for underground and overground space; and
- Land registration

Minimum Prices for Landed Houses and Apartment for Foreign Citizens in Indonesia		
Location/province	Minimum price	
	Landed houses	Apartment units
DKI Jakarta	10 billion rupiah (US$702,000)	3 billion rupiah (US$210,000)
Banten	5 billion rupiah (US$351,000)	2 billion rupiah (US$140,000)
West Java	5 billion rupiah (US$351,000)	1 billion rupiah (US$70,000)
Central Java	3 billion rupiah (US$210,000)	1 billion rupiah (US$70,000)
DI Yogyakarta	5 billion rupiah (US$351,000)	1 billion rupiah (US$70,000)
East Java	5 billion rupiah (US$351,000)	1.5 billion rupiah (US$105,000)
Bali	5 billion rupiah (US$351,000)	2 billion rupiah (US$140,000)
West Nusa Tenggara	3 billion rupiah (US$210,000)	1 billion rupiah (US$70,000)
North Sumatra	3 billion rupiah (US$210,000)	1 billion rupiah (US$70,000)
East Kalimantan	2 billion rupiah (US$140,000)	1 billion rupiah (US$70,000)
South Sulawesi	2 billion rupiah (US$140,000)	1 billion rupiah (US$70,000)
Other provinces	1 billion rupiah (US$70,000)	750 million rupiah (US$52,600)

There are two types of right-to-use (HP) titles:

- Right to use within a certain period; and
- Right to use for land used for specific purposes.

This land title usually refers to the right to use/harvest land directly owned by the state or private land. This land could also be used for a building site in addition to agricultural purposes.

The right to use the title for a certain period can be granted to foreign legal entities that have a representative office, foreign citizens, as well as local entities and citizens. This encompasses state land, freehold title land, and the right to manage land.

If granted for state land and the right to manage land, the title is for a maximum term of 30 years and extendable for another 20. Once the period expires, the title can be extended for another 30 years (a total of 80 years). Previously, an HP title could only be granted for 25 years, and extended for another 20 years, before another renewal of 25 years (a total of 70 years).

The right to build (HGB) is a title that is granted overstate or freehold land to Indonesian citizens and foreign companies (PT PMA) for the purpose of erecting or using a building on the land. The maximum term for an HGB title is 30 years and is extendable for another 20 years. Once this expires, it can be renewed again for another 30 years (80 years in total).

The right to cultivate (HGU) is normally granted to state land for the development of plantations and can be granted to foreign companies. The maximum term for this land title is 35 years and is extendable for another 25 years. Upon expiry, this can then be extended by another 35 years.

HGU, HGB, and HP title holders must commence activities on the land, whether building construction, cultivation, or other use of land, within two years of the title being granted.

Incentives for Indonesia's New Capital City Project

Indonesia's government offers various fiscal and non-fiscal incentives to businesses seeking to invest in Indonesia's new capital city, Nusantara.

Nusantara is estimated to cost US$35 billion to construct and the central government is expected to begin operations in the new city in 2024.

Income tax reductions and holidays

The government will provide income tax holidays and reductions for investments in Indonesia's new capital city. Further, the government will issue future implementing regulations on how the tax facilities will be regulated.

The government will provide up to 100 percent corporate income tax exemption of between 10 and 30 years for domestic taxpayers that invest at least 10 billion rupiah (US$650,745) in the new capital. The duration of the incentive depends on the sectors in which the investment is directed.

For instance, investing in public services will receive the longest tax holiday up until 2035. Banks and insurers that invest before 2035 can enjoy up to 25 years of income tax exemption whereas those that invest before 2045 can receive up to 20 years of income tax exemption.

Developers of other critical infrastructure, such as public works, airports, seaports, and housing, can also benefit from the incentives, as well as businesses that engage in economic development through the construction of hotels, malls, energy infrastructure, and software, among many others.

Corporate income tax reductions will be available for investors that develop financial centers in the new capital, as well as for companies that relocate their head offices to the new capital. Moreover, investors that implement certain research and development activities will be afforded a reduction in their gross income.

Further, micro, small, and medium-sized enterprises in certain business activities will also pay a zero percent corporate income tax rate.

Utilization of foreign workers

Businesses operating in the new capital city will be allowed to employ foreign workers for 10 years; this can also be extended. The foreign worker can also secure residency permits for 10 years, which is also extendable depending on their employment contract.

The employer is also exempted from paying the Foreign Worker Compensation Fund, which is the amount of US$100 paid every month to the Ministry of Manpower.

The residency permits of foreign workers who hold management positions in companies operating in the new capital will remain valid as long as they retain that said position.

Land rights

The government is offering investors 95-year land use permits, which can be extended for another 95 years and thus totaling 190 years for land use.

There will be two categories of land in Indonesia's new capital: a) state-owned property that will be managed by the Nusantara Capital City Authority (a special agency tasked with governing and managing the new capital city) and b) assets that have been granted to the capital city authority through the right-to-manage (Hak Pengelolaan – HPL) deed titles.

The capital city authority can allocate these HPL lands to businesses for the following land rights/titles:

- Right to cultivate (Hak Guna Usaha – HGU);
- Right to build (Hak Guna Bangunan – HGB); and
- Right to use (Hak Pakai – HP).

The right to cultivate title (HGU) gives the user the right to work/cultivate the land for a specific period. This type of land title is usually granted for agricultural activities, such as plantations. In Indonesia's new capital, holders of the HGU title will be allowed to cultivate the land for 95 years, which can then be extended for another 95 years, totaling 190 years.

This is a huge increase compared to other parts of Indonesia where the HGU title is valid for 35 years and extendable for another 35 years upon expiration.

The right to build title (HGB) is granted to Indonesian citizens and foreign companies to erect a building on the land. HGB title holders will be eligible to hold the title for 80 years, which can be extended for another 80 years, totaling 160 years.

Outside of Nusantara, HGB title holders can only hold the title for 30 years, and extendable for 20 years. Once this period has expired, the title can be renewed for another 30 years, so 80 years in total.

Finally, right-to-use (HP) title holders will also be given 80 years and extendable for another 80 years. This title refers to the right to use or harvest the land owned by the state or private persons.

Outside of the new capital city, the HP title is granted for 25 years and extended for another 20 years, before a final renewal of 25 years, totaling 70 years.

Customs

The government offers exemptions on import duties for the import of goods used for the construction and development of Indonesia's new capital. Further, there are import duty exemptions for the import of goods and materials used in the construction and development of industries within the new capital.

AN OVERVIEW OF INDONESIA'S DOUBLE TAX AVOIDANCE AGREEMENTS

Indonesia's large number of double tax avoidance agreements (DTAA) eliminate double taxation for businesses and consumers. Further, the DTAAs contribute to a more transparent and stringent tax environment for trade and investment.

Indonesia has signed 71 DTAAs. These agreements ensure the elimination of double taxation on income earned from the taxpayer's country of residence and Indonesia in the form of reduced withholding tax rates on dividends, interests, and royalties and withholding tax exemptions on services fees.

As such, the DTAAs provide a liberalized tax environment to encourage trade and investments. The agreements are also a testament to growing international cooperation between countries as they offer the tools to streamline taxation or reduce the scope of tax liability.

This is particularly relevant for Indonesia, as it aims to attract an ambitious US$49 billion in foreign investment for 2023, a 7.5 percent increase from the record-breaking year of 2022.

Countries That Have Signed DTAAs with Indonesia

A-B	C-J	K-O	P-S	T-Z
Algeria	Cambodia	Korea (North)	Pakistan	Taiwan
Armenia	Canada	Korea (South)	Papua New Guinea	Tajikistan
Australia	China	Kuwait	Philippines	Thailand
Austria	Croatia	Laos	Poland	Tunisia
Bangladesh	Czech Republic	Luxembourg	Portugal	Turkey
Belarus	Denmark	Malaysia	Qatar	Ukraine
Belgium	Egypt	Mexico	Romania	United Arab Emirates
Brunei	Finland	Mongolia	Russia	United Kingdom
Bulgaria	France	Morocco	Serbia	United States of America
	Germany	Netherlands	Seychelles	Uzbekistan
	Hong Kong	New Zealand	Singapore	Venezuela
	Hungary	Norway	Slovakia	Vietnam
	India		South Africa	Zimbabwe
	Iran		Spain	
	Italy		Sri Lanka	
	Japan		Sudan	
	Jordan		Suriname	
			Sweden	
			Switzerland	
			Syria	

Who do DTAAs apply?

The provisions of DTAAs apply to individuals and companies who are residents of one or both contracting states. The term "persons" refers to any entity recognized as a taxpayer for tax purposes.

An individual is considered a tax resident in Indonesia if they have been present in the country for more than 183 days within a 12-month period, or if they intend to stay in Indonesia. In such cases, they will be considered domestic tax subjects. The government has clarified further the definition of 'residing in Indonesia' and the 'intention to stay in Indonesia'.

For the purposes of taxation, an individual is considered to be "residing in Indonesia" if they meet the following criteria:

- They live in a place of residence in Indonesia that is under their control and can be accessed at any time, which they either own or rent and is not a place of transit;
- They have significant personal or vital interests in Indonesia; and
- They have their regular or habitual residence in Indonesia.

An 'intention to stay in Indonesia' needs to be substantiated with the following documents:

- A permanent stay permit;
- A limited stay visa;
- A limited stay permit; or
- Other documents support their stay of more than 183 days in Indonesia.

Claiming benefits under the DTAAs

To claim benefits under a DTAA, the applicant must present a Certificate of Domicile (CoD) to the local tax office. This document presented either in the form prescribed by Indonesia's Directorate General of Taxes or in the form of the double tax treaty partner country, is required for a party to be entitled to the tax benefit. Without this document, the party will be subject to the normal 20 percent tax rate.

The anti-treaty abuse tests

In addition to the CoD, the applicant must fulfill the anti-treaty abuse tests, which are applicable to all income types derived from Indonesia. These include examining whether:

1. the entity has sufficient employees with expertise in accordance with its line of business;
2. the entity has business activities or activities other than receiving income from royalties, interest, and dividends sourced from Indonesia;
3. the entity has fixed and non-fixed assets to adequately conduct business other than the assets generating income from Indonesia;
4. the entity has relevant economic substance either in the entity's establishment or the execution of its transaction; and
5. the entity has its own management team and has independent discretion to conduct transactions for the entity.

Beneficial ownership test

The DTAA applicant must also fulfill the beneficial ownership test. The intent of this rule is to assist tax authorities in counteracting financial crimes, such as money laundering and tax evasion. Under the test, authorities will examine whether:

1. the entity is not acting as an agent or nominee;
2. the entity uses no more than 50 percent of its income to fulfilling obligations to other parties;
3. the entity has the controlling rights on the assets that generate the income; and
4. the entity has no obligation to transfer the income received to residents of a third country.

Examples of taxable income covered by DTAAs

Dividends

Dividends under an Indonesian DTAA are subject to a final tax rate of between seven to 20 percent depending on the DTAA partner. Resident taxpayers are required to withhold a tax rate of 20 percent for dividend payments to taxpayers whose country of residence does not have a DTAA with Indonesia.

Interest and royalties

Income from interest or royalties is subject to a tax rate of 20 percent for non-resident corporations and individuals. Under a DTAA, the tax rate for income from interest can be reduced to between zero and 15 percent, depending on the DTAA country partner, and between 10-15 percent for royalties.

AN OVERVIEW OF INDONESIA'S FREE TRADE AGREEMENTS

Indonesia has signed a number of free trade agreements as an independent market as well as a member of the Association of Southeast Asian Nations (ASEAN). These trade agreements provide Indonesian consumers and businesses with improved market access for goods and services, new technologies, and investment opportunities.

Indonesia-Japan Economic Partnership Agreement

The Indonesia-Japan Economic Partnership Agreement (IJEPA) was signed in 2007 and has been in force since 2008 and was Indonesia's first bilateral trade agreement. The IJEPA removes or reduces tariffs for 90 percent of goods, particularly for agricultural and industrial products that Japan exports to Indonesia, as well as for Indonesian agricultural products that are exported to Japan.

Services are an important part of IJEPA, and the agreement enabled Japanese businesses to establish service centers in Indonesia, particularly for electronic and IT equipment. Importantly, IJEPA also enables crucial technological transfers and training of the Indonesian workforce.

Japan was Indonesia's third-largest trading partner and the fourth-largest source of foreign investment in 2022. Bilateral trade reached a total value of US$42 billion in 2022.

Indonesia-Korea Comprehensive Economic Partnership

The Indonesia-Korea Comprehensive Economic Partnership (IK-CEPA) began with negotiations in 2012 between the two countries. The negotiations were suspended in 2014 before being resumed in 2019 and were officially implemented on January 1, 2023.

The IK-CEPA eliminates 95 percent of Indonesia's tariffs on exports to South Korea and 92 percent of South Korean tariffs on exports to Indonesia. The agreement will boost Indonesia's fisheries and agriculture sectors while also strengthening South Korea's automotive and industrial sectors.

For South Korea, Indonesia is a potential production base, especially for automotives, petrochemicals, and steel. Automaker Hyundai is noted as being a significant investor in Indonesia and has recently invested US$1.5 billion to build an automotive plant to produce electric (EV) as well as combustion engine (ICE) vehicles. The company has also joined a consortium with LG to build Southeast Asia's largest EV battery plant cell in Indonesia.

South Korea was the seventh largest investor in Indonesia for 2022, with bilateral trade reaching US$20 billion.

Indonesia-Australia Comprehensive Economic Partnership Agreement

Indonesia and Australia ratified the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) in 2020.

The framework of the IA-CEPA is based on five principles: enhancing economic and development partnership, connecting people through social, arts, and cultural collaboration, maritime cooperation, and contributing to the prosperity and stability of the Indo-Pacific region. Further, the increased market access for services and investments in the agreement means Australian companies can enjoy majority ownership of businesses in specific sectors in Indonesia, such as telecommunications, construction services, wastewater management, and tourism.

Indonesia and Australia will also allow their citizens with tertiary levels of education to gain work experience in each other's market. This applies to finance, mining, healthcare, infrastructure development, and engineering, among others.

Importantly, the agreement provides greater market access for agricultural products and livestock for both countries. This is especially important for the Australian cattle industry to which Indonesia is its largest market. Indonesia imports more than 600,000 live cattle annually from Australia.

Indonesia-European Free Trade Association Comprehensive Economic Partnership

Signed in 2018 and entering into force on November 2021, the Indonesia-European Free Trade Association (EFTA) Comprehensive Economic Partnership (IECEPA) eliminates tariffs for the majority of merchandise traded between Indonesia and the EFTA states. The EFTA states comprise Iceland, Liechtenstein, Norway, and Switzerland.

The IECEPA covers trade in goods and services, investments, intellectual property rights, government procurement, cooperation, capacity building, and sustainable development.

The main exports from Indonesia to the EFTA states are clothing accessories and footwear, whereas the main imports are pharmaceutical products, organic chemicals, and electrical machinery. The total merchandise trade between Indonesia and the EFTA states reached 1.5 billion Euros (US$1.6 billion) in 2022 with the EFTA states importing 876 million Euros (US$948 million) worth of goods from Indonesia.

Indonesia-Chile Comprehensive Economic Partnership Agreement

The Indonesia-Chile Comprehensive Economic Partnership Agreement (ICCEPA) was signed in 2017 and came into effect in 2019. The agreement saw a gradual elimination of tariffs on over 9,000 items exported from Chile to Indonesia and for over 7,000 items exported from Indonesia to Chile.

Total bilateral trade between Indonesia and Chile has increased since the signing of the ICCEPA. This reached US$433 million between January and September of 2022, an increase of 45 percent from the same period in 2021.

Indonesia's main exports to Chile are vehicles, footwear, fertilizers, electrical equipment, and rubbers. Meanwhile, Chile's main exports to Indonesia are copper, pulp wood, mollusks, crustaceans, and edible fruits.

Indonesia-Pakistan Preferential Trade Agreement

A free trade agreement signed between Indonesia and Pakistan in 2012, the Indonesia-Pakistan Preferential Trade Agreement (IPPTA), initially saw tariff reductions on over 200 Indonesian products and over 300 goods from Pakistan.

Major items that benefit from the IPPTA are Pakistani Kinnow oranges and palm oil imports from Indonesia. Pakistan exported some US$23 million of Kinnow oranges to Indonesia when trade flows peaked in 2017.

Pakistan imports 87 percent of its palm oil needs from Indonesia, amounting to an average of three million tons per year. The commodity is used for the manufacture of vanaspati oil, which is widely used in Pakistani cuisine.

Preferential Trade Agreement Among D-8 Member States

The Developing-8 comprises of Bangladesh, Egypt, Indonesia, Iran, Malaysia, Pakistan, Nigeria, and Turkiye. The trade agreement was signed in 2006 and came into force in 2011. Tariffs were gradually reduced from between 25 percent to 10 percent for various products.

The D-8 has a combined GDP of nearly US$4 trillion and accounts for 90 percent of exports (except for oil and gas) among the Organization of Islamic Cooperation members. The group has an annual trade of US$1.6 trillion of which 6.5 percent stems from D-8 intra-trade.

Indonesia–Mozambique Preferential Trade Agreement

The Indonesia-Mozambique Preferential Trade Agreement (IM-PTA) has been in force since June 2022 and represents Indonesia's first bilateral agreement with an African country.

Mozambique has reduced import duties for 217 Indonesian products, which include for palm oil, fruits, rubber, paper products, and fishery products. Meanwhile, Indonesia has reduced import duty rates for 242 products from Mozambique, which includes cotton, tobacco, nuts, vegetables, and certain fish products.

The agreement allows Indonesia's textile and garment manufacturers to diversify their sources of fiber by importing cotton from Mozambique, in addition to traditional suppliers in China and the US.

Moreover, the creation of the IM-PTA can incentivize Indonesian businesses to expand not only into Mozambique but also to use the country as a gateway to other parts of Africa, particularly in the southern regions.

The Regional Comprehensive Economic Partnership

Indonesia's parliament approved the country's membership into the Regional Comprehensive Economic Partnership (RCEP) trade pact in August 2022 and became the latest country in ASEAN to join in what is the world's largest free trade agreement.

The RCEP is estimated to cover 30 percent of the global GDP of US$25.8 trillion and comprises 30 percent of the world's population. Further, the RCEP sets to eliminate 92 percent of tariffs on goods traded among its 15 members. For Indonesia, the RCEP could boost the country's trade surplus by US$979 million, more than double the current trade surplus of US$383 million by 2040.

Moreover, Indonesia could see GDP growth by 0.07 percentage points and an increase in exports and imports by US$5 billion and US$4 billion, respectively.

In addition to its participation in free trade agreements as an individual market, Indonesia is also a signatory in free trade agreements through its membership in ASEAN.

ASEAN Trade in Goods Agreement

The ASEAN Trade in Goods Agreement (ATIGA) was established to consolidate and streamline all the provisions under the Common Effective Preferential Tariff for ASEAN Free Trade Agreement (CEPT-AFTA).

To ensure the free flow of goods in ASEAN, the ATIGA comprises elements such as tariff liberalization, trade facilitation, and removing non-tariff barriers.

ASEAN-Australia-New Zealand Free Trade Area

The ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) came into force in January 2010 and currently eliminates 90 percent of goods traded between ASEAN, Australia, and New Zealand. The FTA covers approximately a population of 653 million and over US$4.3 trillion. The AANZFTA was updated on November 2022.

By upgrading the AANZFTA, the participating countries hope to spur post-pandemic growth, facilitate trade, make supply chains more resilient, and encourage sustainable development. The upgrade comes at a time when many developed economies – including Australia and New Zealand – are increasing their footprint in Southeast Asia to diversify their supply chains and reduce trade risks.

The upgrade introduces three new chapters to the AANZFTA: government procurement, micro, small, and medium-sized enterprises (MSMEs), and trade and sustainable development. They also introduce new provisions on education services and augment provisions on e-commerce, competition, and consumer protection, customs procedures and trade facilitation, trade in goods, rules of origin, trade in services, and investment.

ASEAN-China Free Trade Area

The ASEAN-China Free Trade Area (ACFTA) was signed in 2004 and was implemented in July 2005.

Through this FTA, China has consistently ranked as ASEAN's largest investor over the last decade, with total trade of over US$731 billion in 2020.

The FTA reduced tariffs on more than 7,000 product categories — or 90 percent of imports — to zero by 2010, although initially only applicable to Indonesia, Malaysia, Singapore, Brunei, the Philippines, Singapore, and Thailand. The remaining ASEAN members (Myanmar, Laos, Vietnam, and Cambodia, followed suit in 2015. In 2019, ACFTA was upgraded to simplify rules of origin (ROO), trade facilitation measures, investment procedures, and customs procedures.

ASEAN-India Free Trade Area

The ASEAN-India Trade Area (AIFTA) entered into force on January 1, 2010. The signing of the agreement paved the way for the creation of one of the world's largest free trade area markets, creating opportunities for over 1.9 billion people in ASEAN and India with a combined GDP of US$4.8 trillion. The agreement set off tariff liberalization on over 90 percent of products, including palm oil, pepper, black tea, and coffee.

India and ASEAN have agreed to review the scope of the FTA to address certain barriers to trade, namely tariffs. India is treated differently from other ASEAN trade partners where it does not have an economic agreement with the bloc. For instance, Japanese car imports face a five percent duty in Indonesia and Thailand while a 35 percent tariff is imposed on Indian automobiles.

ASEAN-Republic of Korea Free Trade Area

The ASEAN-Republic of Korea Free Trade Area (AKFTA) came into force in 2007 and sets up preferential trade arrangements between ASEAN member states and South Korea. Tariff elimination for 90 percent of products traded between South Korea and ASEAN members Brunei, Indonesia, Philippines, Malaysia, and Singapore was scheduled in 2010, whereas tariff eliminations for Vietnam, Laos, and Myanmar were scheduled by 2018.

South Korea's combined exports to all 10 ASEAN members reached over US$80 billion in 2019, with two-way trade reaching US$160 billion. South Korea and ASEAN made a pledge to increase this to US$200 billion during a summit in Busan to mark 30 years of ties.

ASEAN-Japan Comprehensive Economic Partnership

The ASEAN–Japan Comprehensive Economic Partnership (AJCEP) came into force in December 2008, covering trade in services, goods, investments, and economic cooperation. Tariff eliminations for the ASEAN-6 and Vietnam were completed some 10 years from the entry into force of the agreement, and the rest of ASEAN three years or so after.

The FTA provides for the elimination of duties on 87 percent of all tariff lines and includes a dispute settlement mechanism. It also allows for back-to-back shipment of goods between member countries, third-party invoicing of goods, and ASEAN cumulation.

Advantages for Indonesian exports

Free trade agreements will play an increasingly important role in Indonesian exports, which could rise to US$300 billion in 2024, an increase from the US$268 billion recorded in 2022. The country is looking to develop its downstream commodities industry, which is fast becoming the backbone of total exports – Indonesia enjoyed an export boom due to rising commodity prices.

The country is aiming to regulate the exports of more commodities, such as tin, copper, and bauxite. Indonesia is also the world's largest exporter of thermal coal, palm oil, refined tin, nickel-based steel, and rubber, among other resources.

INDONESIA ISSUES INCENTIVES FOR NEW CAPITAL CITY PROJECT

Indonesia has issued various incentives to attract investments into its new capital city project. The incentives range from income tax holidays to import tax exemptions as well as the permission for hiring foreign workers for up to 10 years.

Indonesia's government recently issued Government Regulation 12 of 2023 (GR 9/2023), which offers various fiscal and non-fiscal incentives to businesses seeking to invest in Indonesia's new capital city, Nusantara.

The incentives afforded to investors include corporate income tax exemptions, tax holidays, and personal income tax exemptions for investments in priority projects in the new capital, such as ports, airports, renewable energy systems, and healthcare services, among many others.

Nusantara is estimated to cost US$35 billion to construct and the central government is expected to begin operations in the new city in 2024. Public funds would only be used for 20 percent of the project with the remainder from foreign investors. The government is expecting the presidential palace to be finished in time for the country's Independence Day anniversary on August 17.

President Joko Widodo has assembled a team of political and business-heavyweights as part of the new capital's steering committee. These include Abu Dhabi Crown Prince Muhammad bin Zayed Al Nahyan and former British Prime Minister Tony Blair.

The new capital sits on a 632,000-acre site, which is roughly four times the size of the current capital, Jakarta. The project presents ample opportunities for foreign investors in a variety of sectors ranging from infrastructure to manufacturing to healthcare and education.

Income tax reductions and holidays

The government will provide income tax holidays and reductions for investments in Indonesia's new capital city. Further, the government will issue future implementing regulations on how the tax facilities will be regulated.

The government will provide up to 100 percent corporate income tax exemption of between 10 and 30 years for domestic taxpayers that invest at least 10 billion rupiah (US$650,745) in the new capital. The duration of the incentive depends on the sectors in which the investment is directed.

For instance, investing in public services will receive the longest tax holiday up until 2035. Banks and insurers that invest before 2035 can enjoy up to 25 years of income tax exemption whereas those that invest before 2045 can receive up to 20 years of income tax exemption.

Developers of other critical infrastructure, such as public works, airports, seaports, and housing, can also benefit from the incentives, as well as businesses that engage in economic development through the construction of hotels, malls, energy infrastructure, and software, among many others.

Corporate income tax reductions will be available for investors that develop financial centers in the new capital, as well as for companies that relocate their head offices to the new capital. Moreover, investors that implement certain research and development activities will be afforded a reduction in their gross income.

Further, micro, small, and medium-sized enterprises in certain business activities will also pay a zero percent corporate income tax rate.

Utilization of foreign workers

Businesses operating in the new capital city will be allowed to employ foreign workers for a period of 10 years; this can also be extended. The foreign worker can also secure residency permits for 10 years, which is also extendable depending on their employment contract.

The employer is also exempted from paying the Foreign Worker Compensation Fund, which is the amount of US$100 paid every month to the Ministry of Manpower.

The residency permits of foreign workers who hold management positions in companies operating in the new capital will remain valid as long as they retain that said position.

Land rights

The government is offering investors 95-year land use permits, which can be extended for another 95 years and thus totaling 190 years for land use.

There will be two categories of land in Indonesia's new capital: a) state-owned property that will be managed by the Nusantara Capital City Authority (a special agency tasked with governing and managing the new capital city) and b) assets that have been granted to the capital city authority through the right-to-manage (Hak Pengelolaan – HPL) deed titles.

The capital city authority can allocate these HPL lands to businesses for the following land rights/titles:

- Right to cultivate (Hak Guna Usaha – HGU);
- Right to build (Hak Guna Bangunan – HGB); and
- Right to use (Hak Pakai – HP).

The right to cultivate title (HGU) gives the user the right to work/cultivate the land for a specific period. This type of land title is usually granted for agricultural activities, such as plantations. In Indonesia's new capital, holders of the HGU title will be allowed to cultivate the land for 95 years, which can then be extended for another 95 years, totaling 190 years.

This is a huge increase compared to other parts of Indonesia where the HGU title is valid for 35 years and extendable for another 35 years upon expiration.

The right to build title (HGB) is granted to Indonesian citizens and foreign companies for the purpose of erecting a building on the land. HGB title holders will be eligible to hold the title for 80 years, which can be extended for another 80 years, totaling 160 years.

Outside of Nusantara, HGB title holders can only hold the title for 30 years, and extendable for 20 years. Once this period has expired, the title can be renewed for another 30 years, so 80 years in total.

Finally, right-to-use (HP) title holders will also be given 80 years and extendable for another 80 years. This title refers to the right to use or harvest the land owned by the state or private persons.

Outside of the new capital city, the HP title is granted for 25 years and extended for another 20 years, before a final renewal of 25 years, totaling 70 years.

Customs

The government offers exemptions on import duties for the import of goods used for the construction and development of Indonesia's new capital. Further, there is import duty exemptions for the import of goods and materials used in the construction and development of industries within the new capital.

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