



BUSINESS CLIMATE SURVEY
TEAM SWEDEN IN INDONESIA

FOREWORD

The Swedish business community in Indonesia grows every year, and today we count more than 50 Swedish companies with presence in Indonesia. The first Swedish company came to Indonesia more than a hundred years ago, and our continuing exchange is a testament to the long-standing collaboration between Indonesia and Sweden.

The purpose of this report is to shed light on how Swedish companies perform in Indonesia and on the opportunities and challenges that the Indonesian market poses. In addition, we hope that the report will serve as a reference in bilateral trade dialogues and as an aid in Sweden's international commitment to promote an open business environment for all companies in Indonesia.

This study suggests that the Indonesian market holds great promise. As we write this, the Covid-19 crisis is ongoing and the outlook for both the Indonesian and the global economy is uncertain. Current projections suggest that Indonesia may face a significant short-term decline, yet it is well poised to recover and regain momentum in 2021; in the longer term, Indonesia's large and expanding customer base means that it is certain to remain an important market for Swedish products and services.

Amidst the opportunities, Swedish companies face certain structural challenges, such as corruption and bureaucracy. While these challenges are significant, efforts directed at improving the business environment are ongoing and a majority of Swedish companies expect to increase their investments in the future. We believe that as these issues are addressed, the importance of Indonesia as a market for Swedish companies will grow.

Finally, we would like to extend our most sincere thanks to the participating companies who contributed to this year's report.



Erik Odar
Country Manager
Indonesia,
Business Sweden

EXECUTIVE SUMMARY

SAMPLE SELECTION

61% of Swedish of companies in Indonesia answered the survey



Most companies (54%) work in the industrial space

ECONOMIC OUTLOOK

63% of Swedish companies reported profitability in 2019



Swedish companies expect future positive performance – 54% plan to increase investments in the next twelve months

MARKET INSIGHTS

68% of respondents have been established in Indonesia for more than a decade



Most Swedish companies (54%) view the business climate neither as negative nor positive

KEY SUCCESS FACTORS

63% of Swedish companies believe that the “Swedish brand” contributes to their business



The highest-ranking key success factors are brand awareness, partnerships and cost efficiency

SUSTAINABILITY

71% of Swedish companies think that environmental aspects do not affect purchase decisions much



Corruption an investment obstacle – 48% report that it affects business much/very much

ABOUT THE SURVEY

Results are based on responses from 61% of Swedish companies present in Indonesia

The **Business Climate Survey** is a tool used by Team Sweden to map the opportunities and challenges Swedish companies face when doing business across the world. In Indonesia, the survey has been carried out every two years since 2013.

Conducted between 2nd and 20th of March 2020, this year's survey contained 22 questions, which were sent to the more than 50 Swedish companies present in Indonesia. With a total number of 35 respondents, the response rate was 61%.

The report is divided into four sections:

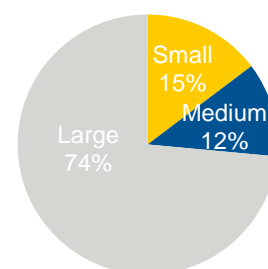
- 1) Economic Outlook
- 2) The Market
- 3) Key Success Factors
- 4) Acting Sustainably

The section "Economic Outlook" describes current and future profitability and expected investments over the next twelve months for Swedish firms in Indonesia. "The Market" provides insights on the characteristics of Swedish companies present. "Key Success Factors" describes how Swedish companies operate in the market, as well as the key success factors and risks they experience. Lastly, "Acting Sustainably" shows how the market has responded to sustainability issues such as corruption and environmental decline.

To be included in the sample selection, companies have to be owned by either a Swedish juridical entity (e.g. branch, joint venture, representative office) or a natural person. For the sake of consistency, all respondents are collectively referred to as "Swedish companies". The majority of Swedish companies (74%) are part of large corporations with a global turnover of more than USD 50 million and/or a headcount of >249. Around twelve percent of the respondents are classified as medium-sized companies with a global turnover of USD 11-50 million and/or a headcount of 50-249, and the rest (15%) are classified as small-sized companies.

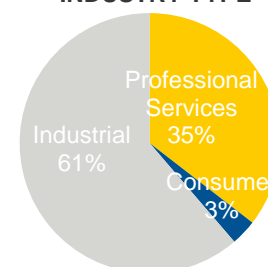
The business activities of surveyed Swedish companies in Indonesia cover a wide spectrum. Broadly speaking, the businesses can be grouped into three types of companies; industrial (61%), professional services (31%) and consumer companies (3%). In terms of maturity, 34% of respondents have been established in Indonesia for more than two decades, 49% were established 2001-2015 and 14% were established 2016-2019.

SIZE OF COMPANIES



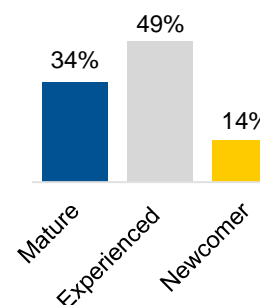
NOTE: Turnover (USD) and HC
Large >50m and/or >249 HC,
Medium 11-50m and/or 50-249 HC,
Small <11m and/or <50 HC

INDUSTRY TYPE



NOTE: Primary industry as per self-assessment of respondents

AGE OF COMPANY









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

Impact of Covid-19 on survey results

This survey was carried out prior to the official announcement of the Covid-19 outbreak in Indonesia. As a consequence, sentiments expressed by survey participants, for instance regarding planned investments and expectations on future performance, are likely to have changed in the meantime.

The adverse economic impact of the crisis has caused economists to adjust downwards the GDP growth forecast for 2020. The largest impact is derived from weaker tourism flows and disruptions in regional supply chains. Household consumption on all spending categories are expected to be held back, while essential consumption and entertainment are expected to shift from offline to online. A report by the World Bank, published in April 2020, forecasted that out of all Southeast Asian countries, Thailand will be the hardest hit by the outbreak, with an expected -6.7% in GDP growth in 2020. Malaysia and Singapore are expected to slow down to -3.5% and -1.7% respectively, while Indonesian GDP growth in 2020 is forecasted at 0.5%. Experts expect at the time of writing that the global economy will return to pre-crisis levels by 2021, by which time Indonesia is expected to reach a GDP growth of 8.2%.

REAL GDP GROWTH (%)

		2019	Projection	
			2020	2021
	Indonesia	+5.0	+0.5	+8.2
	India	+4.2	+1.9	+7.4
	China	+6.1	+1.2	+9.2
	Malaysia	+4.3	-1.7	+9.0
	Singapore	+0.7	-3.5	+3.0
	Thailand	+2.4	-6.7	+6.1

SOURCE: World Bank, April 2020

ECONOMIC OUTLOOK

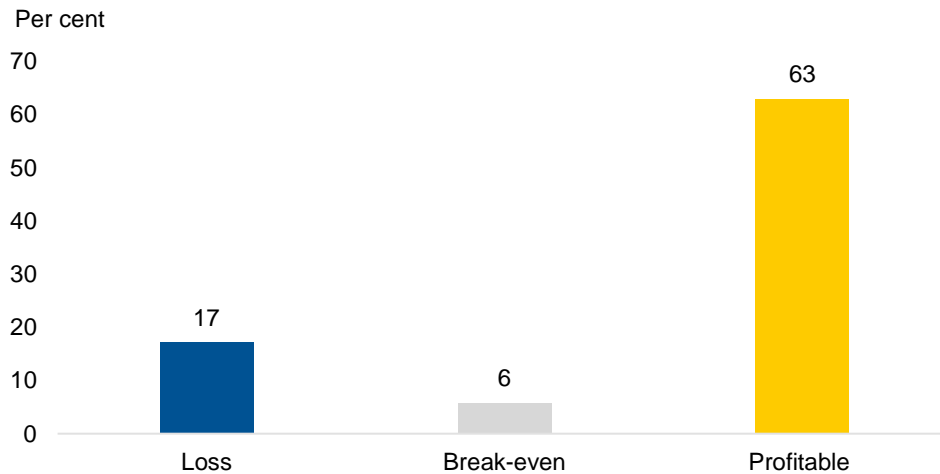
Consumer market drives economic growth

Indonesia has charted impressive economic performance since the Asian Financial Crisis of 1997. For the past 50 years, Indonesia has sustained an average annual GDP growth rate of 5.6%, with a substantial reduction in extreme poverty. With GNI per capita reaching USD 3,840 in 2018, the country is now classified as a middle-income country.

The Indonesian economy is upheld by domestic demand, which safeguards economic resilience and has allowed Indonesia to recover quickly from external crises, such as the US subprime mortgage crisis and the European debt crisis.

Consistent growth has sustained profitability for Swedish companies in Indonesia. Sixty-three percent of respondents reported positive results from local operations for 2019, while approximately 17% of respondents showed negative results – primarily reported by firms that only recently entered the market.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN INDONESIA IN 2019?



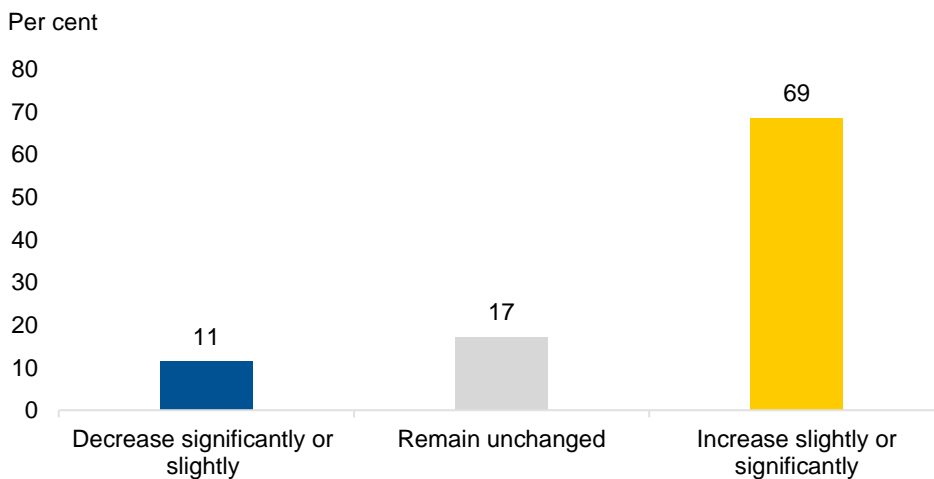
NOTE: The number of respondents for this question was 35 – "Don't know" and "N/A" responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

Optimistic expectations of future performance

There are three key factors that support Indonesia's future economic growth. First, Indonesia is able to leverage on the demographic dividend of its young population, which is forecasted to reach 300 million by 2030 with two thirds being of working age. Second, the utilisation of the rapid growth of Indonesia's digital economy, which has been attributed to the high digital savviness of Indonesian consumers. A study made by Google Temasek forecasted that the internet economy of Indonesia will reach USD 130 billion by 2025. Third, as the demographic concentration continues to shift from rural to urban areas, discretionary consumer spending will continue to increase. Based on a global study by Nielsen (2019), the Indonesian consumption pattern has changed dramatically over the last five years, with higher spending on education, groceries, digital entertainment and leisure.

This positive outlook is echoed by most respondents. Approximately 69% of Swedish companies forecast that their turnover in Indonesia will increase slightly or significantly in the coming twelve months. All Swedish consumer companies in Indonesia expect their businesses to grow, and professional services companies demonstrate almost the same level of confidence, with 82% expecting positive growth. Industrial companies on the other hand take a more balanced view, with 63% expecting a slight or significant increase in turnover, and 26% expecting that their sales will remain unchanged. Only 11% of companies think that their turnover will decrease slightly or significantly.

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



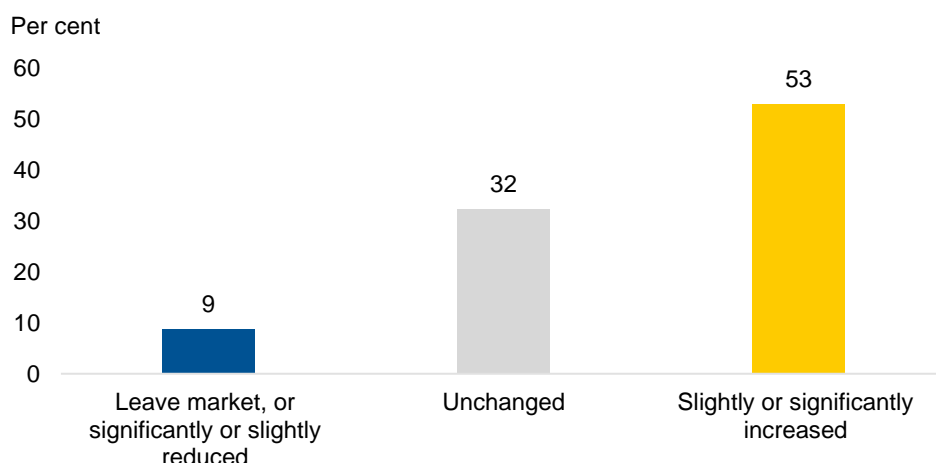
NOTE: The number of respondents for this question was 35 – "Don't know" and "N/A" responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

► **“Overall, there are many positive changes made by the Government, such as improved infrastructure, reduced bureaucracy and improved transparency”**

General Manager
Oil company

International investors, including Swedish companies, are betting on Indonesia's growth. Based on our findings, more than half of respondents expect that their investments will increase slightly or significantly in the next twelve months. Approximately 32% of the companies think that their investment level will remain unchanged, and the remaining nine percent think that they will reduce investments.

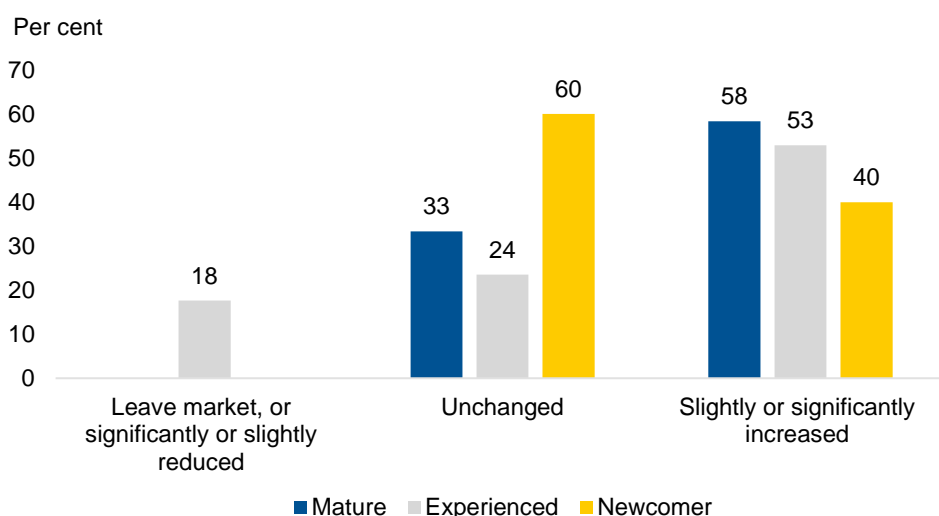
WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN INDONESIA, COMPARED TO THE PAST 12 MONTHS?



NOTE: The number of respondents for this question was 35 – "Don't know" and "N/A" responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

To provide a greater understanding of Swedish investment plans in Indonesia, responses were divided based on age categories. Companies that expect to reduce investments or leave the market belong strictly to the group of experienced companies, while all newcomers and mature companies plan investments either to remain unchanged or to increase in the next twelve months.

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



NOTE: The number of respondents for this question was 35 – "Don't know" and "N/A" responses are included but not shown in figure
Mature (-2000), Experienced (2001-2015), Newcomer (2016-)
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

THE MARKET

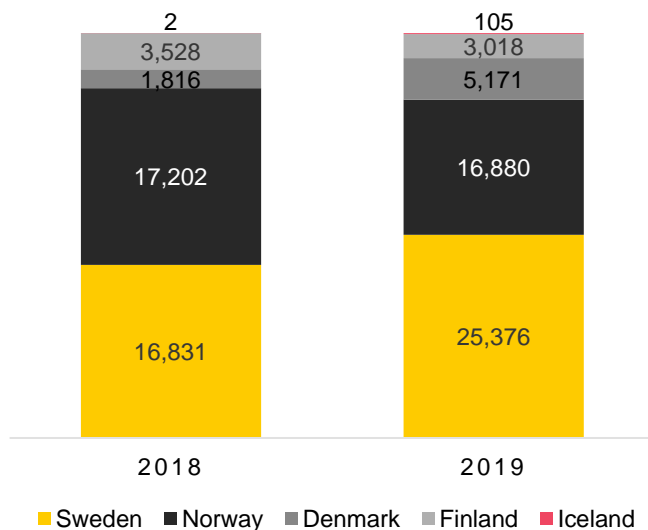
Swedish interest in Indonesia is growing

Southeast Asia is one of the highest-performing emerging markets for export-led development in the world. The strong economic performance in the region is partly due to the openness of Southeast Asian governments towards FDI, for instance by providing incentives for localisation, by selective liberalisation (e.g. ASEAN Free Trade Area) and by offering strong investment protection guarantees. In Indonesia, FDI inflows have in the past been driven by economic stability, low government debt levels and prudent fiscal management.

The top-three investors in Indonesia are Singapore, Japan and China. Singapore alone accounted for 23% of all FDI inflows in 2019 and has remained the largest investor for all of the last five years. Japanese investors, traditionally the second largest investors, have invested in Indonesia since the 1970s in both economic up- and downturns. As China's economy has grown, so has its outward investments, and in 2019 China overtook Japan as the second largest investor in Indonesia.

Swedish investments reflect the growing importance of the Indonesian market to Swedish companies – between 2018 and 2019 investments increased from USD 16 million to USD 25 million.

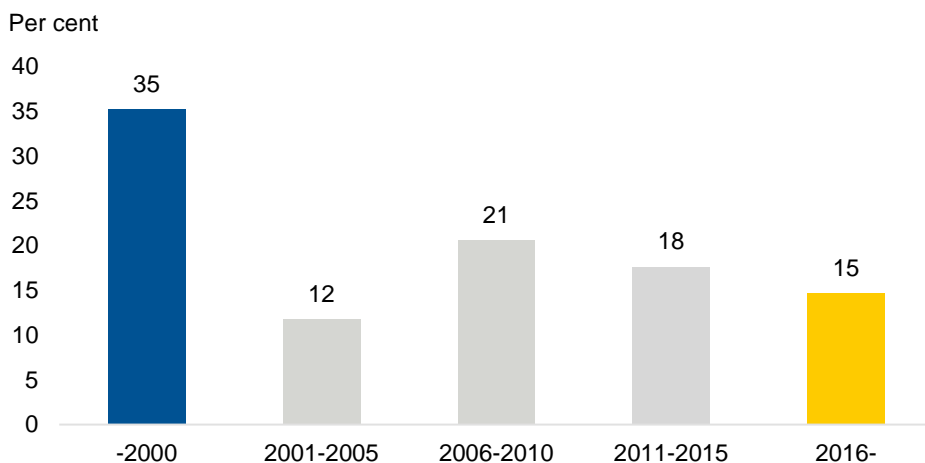
NORDIC COUNTRIES' FDI IN INDONESIA (USD '000)



SOURCE: Indonesia Investment Coordinating Board (BKPM), 2019

The level of Swedish company establishments in Indonesia is relatively evenly spaced over years, with on average 3-4 company establishments every year over the last 20 years. 35% of respondents are classified as mature (established before 2001) and typically of medium-to-large size, 33% of companies are classified as experienced (between 2001 and 2015) and 32% are newcomers (after 2015). Both experienced companies and newcomers are typically small-size enterprises still expanding their footprint in Indonesia.

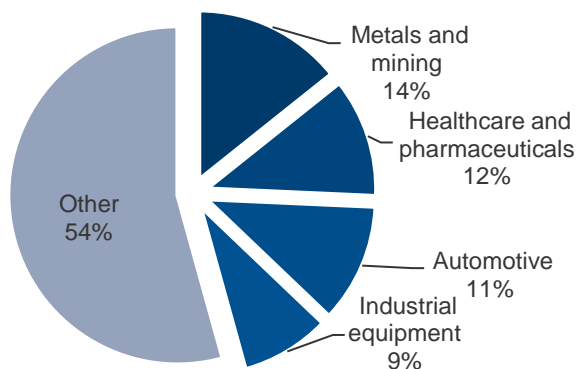
IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN INDONESIA?



NOTE: The number of respondents for this question was 35 – “Don't know” and “N/A” responses are included but not shown in figure
 SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

Swedish firms in Indonesia belong to a wide range of industries; the most prevalent being metals & mining, followed by healthcare & pharmaceuticals, automotive, and industrial equipment. In these sectors, most companies offer sophisticated technology solutions, which as a rule are not offered by domestic manufacturers. Nevertheless, Indonesia is taking steps to join the industrial revolution: the government has launched an Industry 4.0 roadmap to transform the manufacturing sector, which today largely consists of SMEs with manual labour operations.

WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN INDONESIA?



NOTE: The number of respondents for this question was 35 – “Don't know” and “N/A” responses are included but not shown in figure
 SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

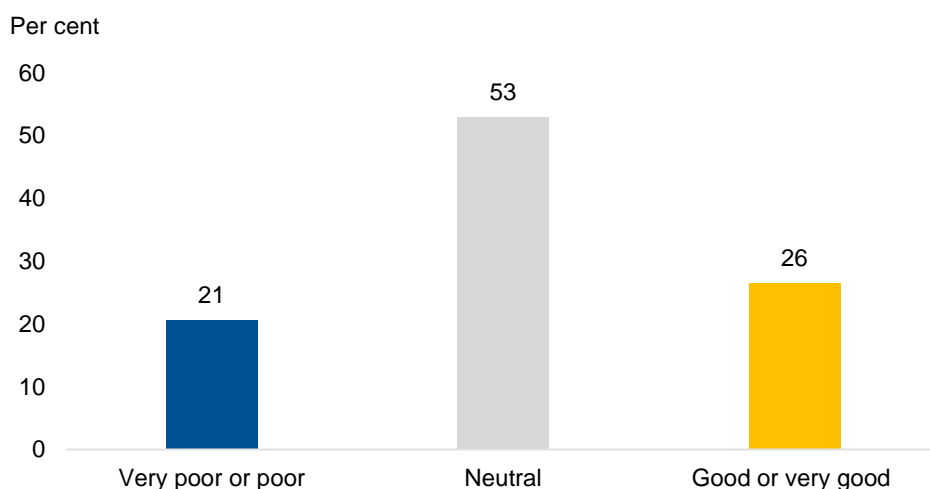
Swedish companies have a neutral view on Indonesia's business climate

When asked how they rate the business climate in Indonesia, 53% of Swedish firms take a neutral position, noting that improvements occur gradually despite occasional setbacks. Twenty-six percent are optimistic, highlighting that significant improvements have been made, particularly in terms of infrastructure development and simplification of bureaucracy. Companies with negative views hold that economic competitiveness in Indonesia is not yet at par with those of other Southeast Asian markets.

▶ **“Political stability is very important to sustain an attractive business climate”**

General Manager
Smart solutions company

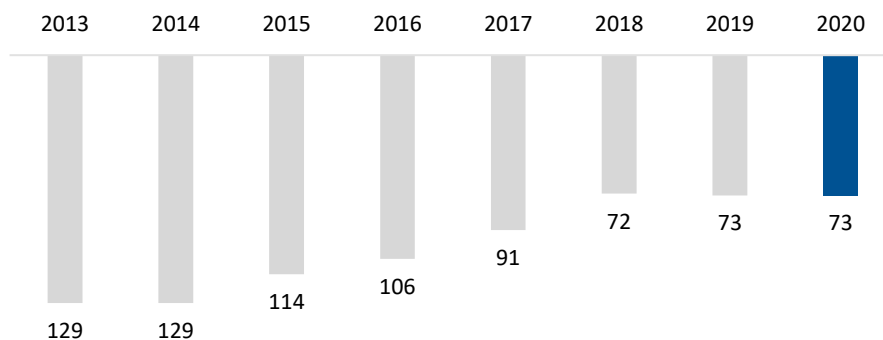
HOW DO YOU PERCEIVE THE BUSINESS CLIMATE IN INDONESIA?



NOTE: The number of respondents for this question was 35 – “Don’t know” and “N/A” responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

In 2020, Indonesia ranks at 73rd place on the World Bank’s ease of doing business index – unchanged from the previous year. Aiming to improve the ranking, the Government has committed to reform business services, for instance by introducing Online Single Submissions (OSS) for business licenses, by launching an improved online reporting and tax payment service as well as by improving the online system for declaration of exported goods.

EASE OF DOING BUSINESS RANKING – INDONESIA



SOURCE: World Bank, 2020

Good access to local partners

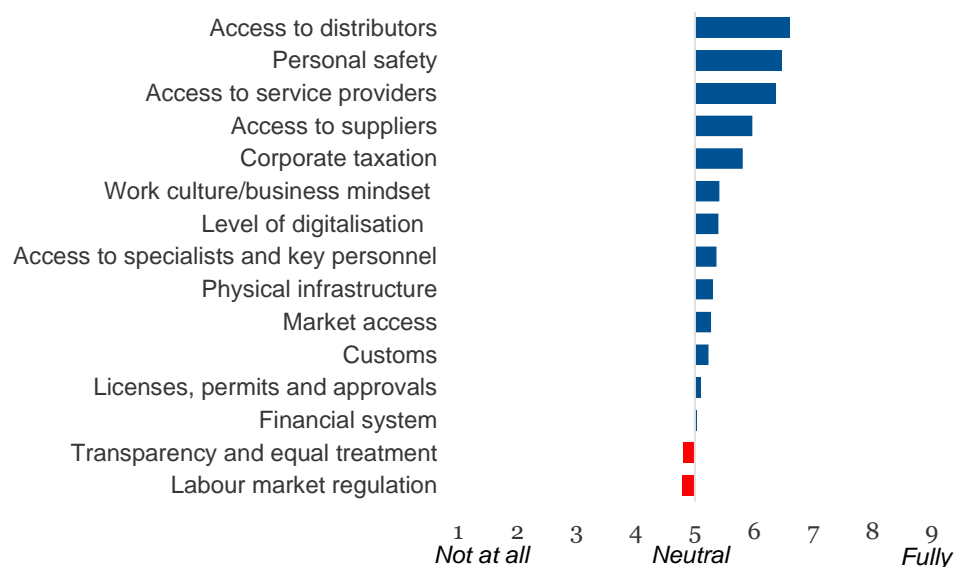
In countries like Indonesia, where relationships are critical for doing business and it often takes time to build trust with clients, companies often prefer to enter the market through a collaboration with a local partner who already has access to important networks. Based on the survey, Swedish companies find that there is good access to qualified distributors. Nevertheless, finding the right distributor can sometimes be challenging – due diligence and benchmarking is often needed to evaluate different candidates.

There are several things that companies need to consider when evaluating a partner. A good track record and industry knowledge is essential. Also important is experience in working with international partners/clients, as it asserts conformity with international business standards. Finally, customer service and after-market capabilities may be needed if the company lacks proprietary service infrastructure.

After selecting a partner, companies should invest the time needed to develop a good working relationship. Active engagement and visibility through site visits are often needed alongside investments in education and training of local staff – for entry-level personnel as well for experienced managers.

At the bottom of the spectrum, transparency and equal treatment, as well as labour market regulations, sometimes pose a problem for Swedish companies in Indonesia. Areas where transparency is known to be lacking include business registrations, permit issuances and procurement processes. In terms of labour market regulation, the main issue is related to the fact that legal frameworks have tended to change in the past.

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



NOTE: The number of respondents for this question was 35 – “Don’t know” and “N/A” responses are included but not shown in figure
 SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

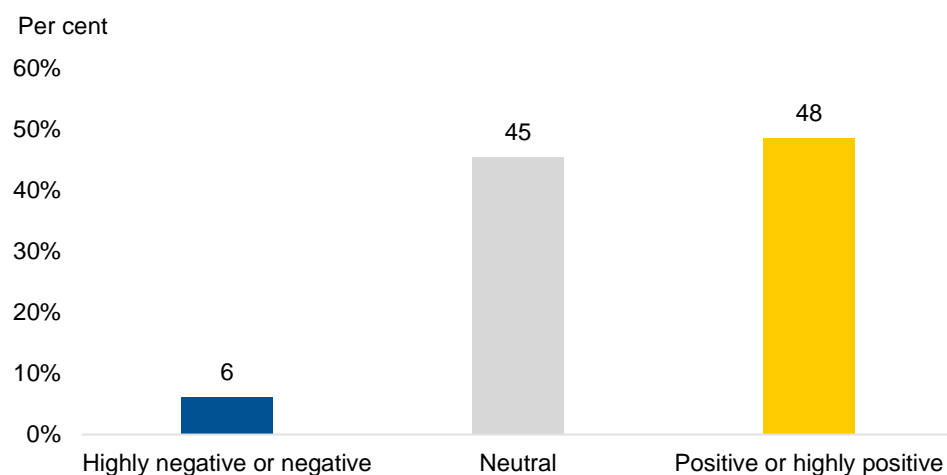
Tied views on prospects of new government

Besides economic and commercial conditions, the political landscape plays an important role when making business in Indonesia. In April 2019, Indonesia held general and regional elections. Re-elected for the second time as President, Joko Widodo is now able to continue efforts started during his first term. When elected four years ago, he announced a USD 350 billion infrastructure package that promised to remove existing bottlenecks and improve access to infrastructure outside of the main island of Java, and in August 2019, the government declared a plan to relocate the capital city to the province of East Kalimantan.

Alongside state-owned enterprises, private parties will be invited to take part in the relocation project. Initial plans anticipate that approximately 19% of the funding will come from the state budget while around 55% will be financed through public-private partnership. The remaining 26% is expected to come from the private sector.

When we asked Swedish companies how they felt about the new government almost a year after elections, 48% of Swedish companies were positive or highly positive, around 45% were neutral, while 6% were negative or highly negative.

WHAT IS YOUR PERCEPTION OF THE POLITICAL ENVIRONMENT POST-ELECTION – HAS THE NEW GOVERNMENT AFFECTED YOUR BUSINESS?



NOTE: The number of respondents for this question was 35 – “Don’t know” and “N/A” responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

▶ **“The New Capital project is a great opportunity”**

Country Manager
Transportation company

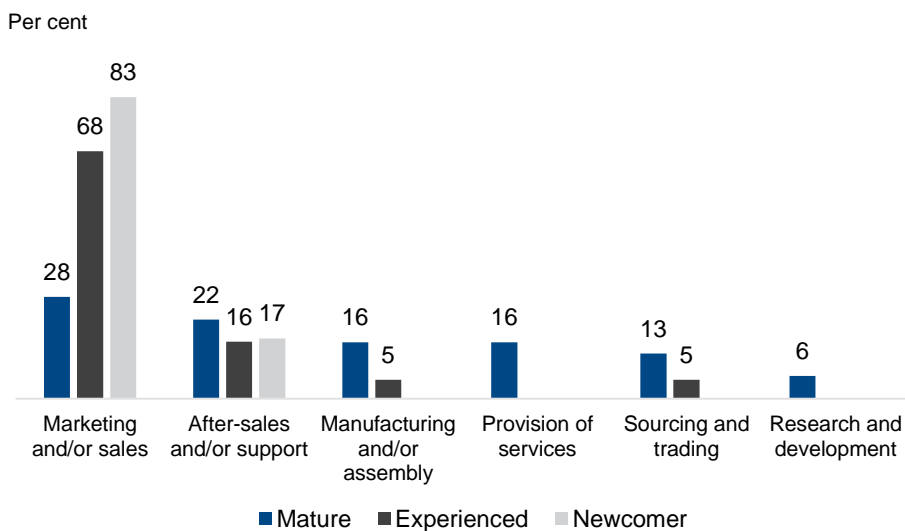
KEY SUCCESS FACTORS

Establishing a marketing & sales office the typical starting point for Swedish companies

There is no generic formula for success in international business. Companies must adapt to existing market conditions and develop an appropriate business model. It should not be surprising that a one-size-fits-all approach often fails in Indonesia in view of the geographic size and scope of the market – the Indonesian consumer profile varies greatly between islands in terms of purchasing power, preferences and behaviour. Local offices must therefore design their go-to-market strategies very carefully and take into consideration local customs and needs. At the same time, they need to remain agile, listen to feedback and recalibrate their strategy as they learn more about the market.

Our survey indicates that setting up a marketing and sales office is the typical starting point for newcomers to Indonesia. Only after years of learning do companies expand into other types of operations. The second most common type of operations is an after-sales and/or support function and the least common type of operation is R&D.

WHAT OPERATIONS DO YOU CARRY OUT IN INDONESIA?



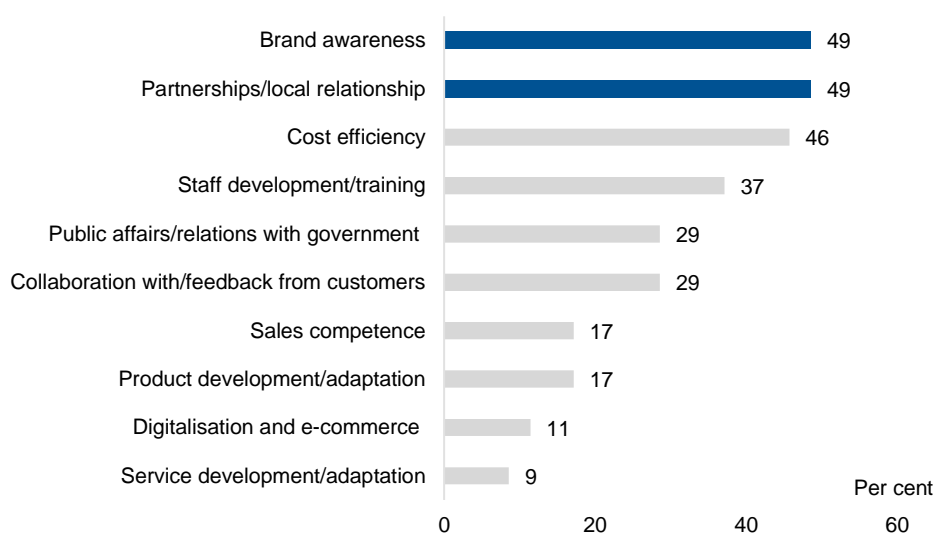
NOTE: The number of respondents for this question was 35 – "Don't know" and "N/A" responses are included but not shown in figure
Mature (-2000). Experienced (2001-2015). Newcomer (2016-)

SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

Brand awareness and partnerships are key to business viability for Swedish companies

Business competition can be fierce in a market as large as Indonesia, and there is often a need to rely on unique sources of competitiveness to remain viable in the long run. Among ten selected areas, respondents answered that brand awareness and partnerships are the most important to remain competitive in Indonesia. These two areas cannot be viewed in isolation seeing as they are interdependently reinforcing each other.

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



NOTE: The number of respondents for this question was 35 – “Don’t know” and “N/A” responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

A different result appears when we analyse responses based on their industry type. For professional services and consumer companies, brand awareness is most important, whereas industrial companies consider partnership the most important factor to maintain competitiveness, followed by cost efficiency and brand awareness.

TOP THREE AREAS FOR MAINTAINING COMPETITIVENESS – BASED ON INDUSTRY TYPE

Professional services:

1. **Brand awareness**
2. Public relations with government
3. Staff development

Consumer:

1. **Brand awareness**
2. Product development
3. Digitalization & e-commerce

Industrial:

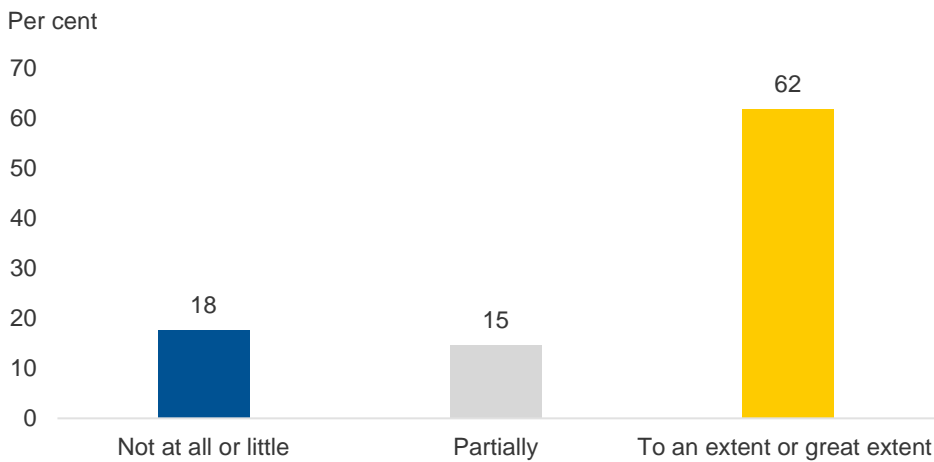
1. Partnerships
2. Cost efficiency
3. **Brand awareness**

NOTE: The number of respondents for this question was 35 – “Don’t know” and “N/A” responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

The “Swedish brand” strong in Indonesia

Sweden ranks at the top of many global indices; from innovation, sustainability and entrepreneurship to economic development. This reputation is reflected in the perceived value of Swedish-branded products. Sixty-three percent of Swedish companies report that being viewed as a Swedish brand contributes to an extent or a great extent. In order to realize the potential benefits of this perception, companies should seek to integrate the Swedish brand into their communication strategy and cultivate their local reputation carefully.

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



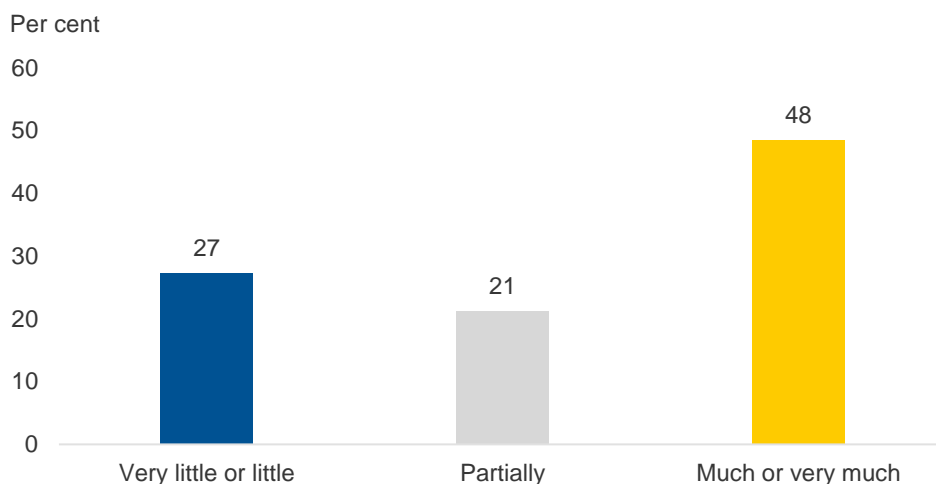
NOTE: The number of respondents for this question was 35 – “Don’t know” and “N/A” responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

ACTING SUSTAINABLY

Corruption remains an obstacle for Swedish companies present in Indonesia

While Indonesia offers attractive business opportunities, corruption still work as a deterrent for many international investors. Almost half of the respondents think that corruption affects their business much or very much. Around 21% say that corruption has affected them partially, and 27% of the respondents think that corruption affects their business only to a lesser degree. Swedish companies generally believe that stronger reinforcement is needed and that the Government should treat anti-corruption measures as a priority.

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



NOTE: The number of respondents for this question was 35 – "Don't know" and "N/A" responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

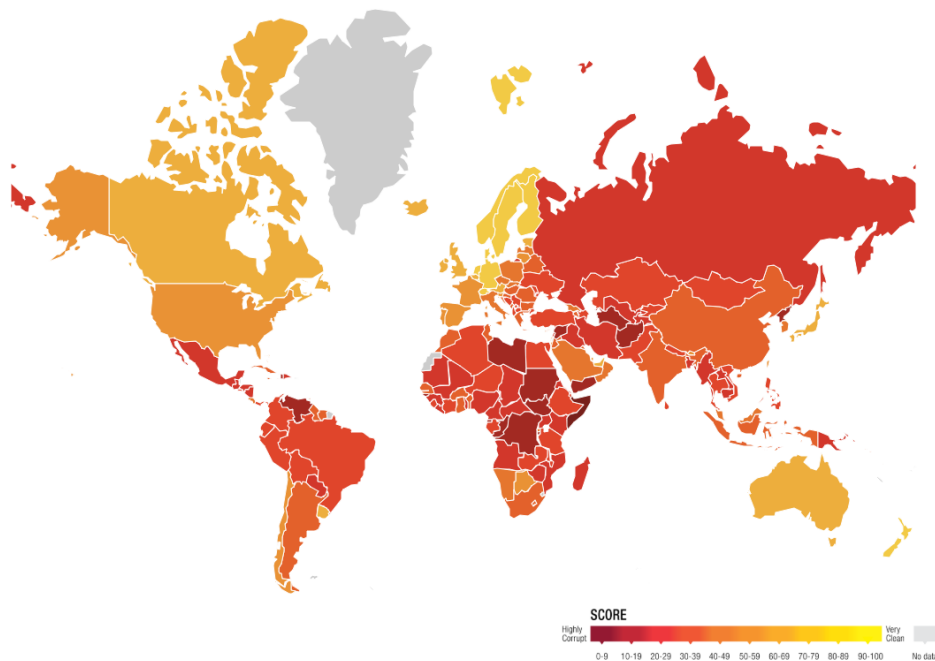
In a Business Sweden study carried out in Indonesia in 2019, four areas were identified as highly prone to corruption: permit obtainment, procurement, customs & imports and taxation. Our survey respondents reported that laws and regulations are sometimes vaguely worded, resulting in uncertainty and rent-seeking activities. Furthermore, companies reported that the most common form of corruption is illicit brokerage of process turnaround time. The study also suggested that successful companies conduct proper market checks before engaging in business and always ask for receipts in business transactions.

Anti-corruption measures are being taken but stronger enforcement is still needed

In Transparency International's yearly review of corruption perception in the world, Indonesia last year ranked 85 out of 180 countries; an improvement from the previous year's rank by four positions (89; 2018). Though it is clear that improvements are being made, the Government needs to redouble efforts in the fight against corruption.

The current administration faces protests from citizens regarding a revision of the anti-corruption law, which is expected to weaken the mandate of the anti-corruption agency (KPK). Unless the government overturns their revision of the anti-corruption law, incoming investments, which remains a priority for the current administration, may fall off.

CORRUPTION PERCEPTION INDEX 2019



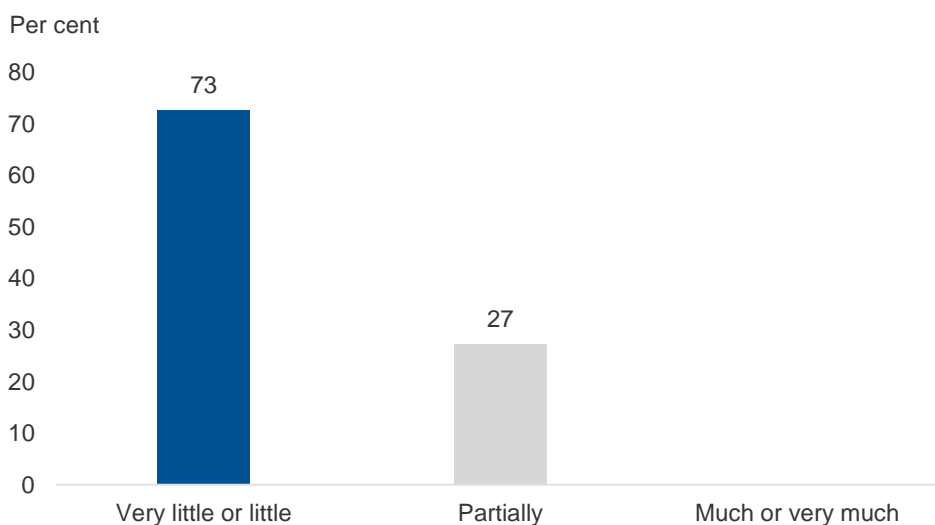
SOURCE: Transparency International, 2019

Sustainability not yet a critical purchasing criterion according to Swedish companies

With a growing population and rising consumption, environmental decline in Indonesia is accelerating and quickly becoming a more important topic. Addressing the rising demand for environmental conservation involves ensuring the availability of clean air, garbage management, and reliable water and wastewater services. Efforts to control the decline have been made, but stronger measures still need to be taken.

In a joint study by WWF and Nielsen, 63% of Indonesian consumers stated that they were willing to buy eco-labelled products even if they cost more than normal products, which indicates that environmental impact is a relevant purchase criteria. This serves as a counterpoint to the findings in this survey, in which far more than half (73%) believe that environmental aspects affect the purchasing decision either too a little or very little extent. The remaining 27% say that sustainability aspects affect the purchasing decision of customers only to some extent.

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



NOTE: The number of respondents for this question was 35 – "Don't know" and "N/A" responses are included but not shown in figure
SOURCE: Business Climate Survey for Swedish Companies in Indonesia 2020

CONTACT US

AUTHORS



Elsa Purba,
Indonesia



**Jesper
Bernhardsson,**
Indonesia

BUSINESS SWEDEN

jakarta@business-sweden.se

www.business-sweden.com/markets/asia-pacific/indonesia

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BUSINESS SWEDEN Box 240, SE-101 24 Stockholm, Sweden
World Trade Center, Klarabergsviadukten 70 T +46 8 588 660 00
info@business-sweden.se www.business-sweden.com

