

# Investment Climate Statement **Indonesia**

January 2023

Mizuho Bank, Ltd.  
Global Strategic Advisory Department

Mizuho Research & Technologies, Ltd.  
Research Division

**MIZUHO**

The Mizuho logo consists of the word "MIZUHO" in a bold, white, sans-serif font, positioned above a white, curved horizontal line that resembles a stylized wave or a bridge.

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# I. Country Profile

# I-1. Key Economic Indicators for Asia

Country/Region	Japan	China	South Korea	India	Singapore	Malaysia
Population (millions)	125.2	1,412.6	51.6	1,406.6	5.3	33.1
Nominal GDP (US\$ 100 million)	43,006	183,212	17,342	34,686	4,236	4,341
Real GDP growth rate (annual, %)	1.7	3.2	2.6	6.8	3.0	5.4
GDP per capita (US\$)	34,358	12,970	33,592	2,466	79,426	13,108
Estimated GDP growth rate (2023, %)	1.6	4.4	2.0	6.1	2.3	4.4
Credit rating (S&P) as of Oct 2022	A+	A+	AA	BBB-	AAA	A-
Country/Region	Thailand	Indonesia	Vietnam	Philippines	Cambodia	Myanmar
Population (millions)	70.1	274.9	99.4	111.7	16.0	53.9
Nominal GDP (US\$ 100 million)	5,348	12,894	4,138	4,017	283	595
Real GDP growth rate (annual, %)	2.8	5.3	7.0	6.5	5.1	2.0
GDP per capita (US\$)	7,631	4,691	4,163	3,597	1,771	1,105
Estimated GDP growth rate (2023, %)	3.7	5.0	6.2	5.0	6.2	3.3
Credit rating (S&P) as of Oct 2022	BBB+	BBB	BB+	BBB+	NR	n.a.

Note: 1. Data are for 2022 and estimated GDP growth rates for 2023

2. S&P rating criteria:

A: An obligor rated "A" has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB: An obligor rated "BBB" has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB: An obligor rated "BB" is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitments.

## I-2. Basic Data and Overview



### Basic Data on Indonesia

Population	274.900 million people (2022 IMF)
Square area	1.89 million Km <sup>2</sup> approx. (5 times Japan's size)
Capital	Jakarta
Language	Indonesian
Ethnicities	The majority is Malay
Religions	Islam (87.2%), Christianity (9.8%), Hinduism (1.6%)
Currency	Rupiah (IDR)
Politics	Republic (presidential system); Head of State: President Joko Widodo
GDP	Nominal: US\$1,289 billion; Per capita: US\$4,691 (2022 IMF)
Real GDP growth rate	5.3% (2022 IMF), 5.0% (2023 IMF)
Major industries	Manufacturing (transportation equipment, food and drink), agriculture (palm oil, rubber, rice, etc.), mining industry (LNG, coal, nickel, etc.), commerce, hotels, restaurants

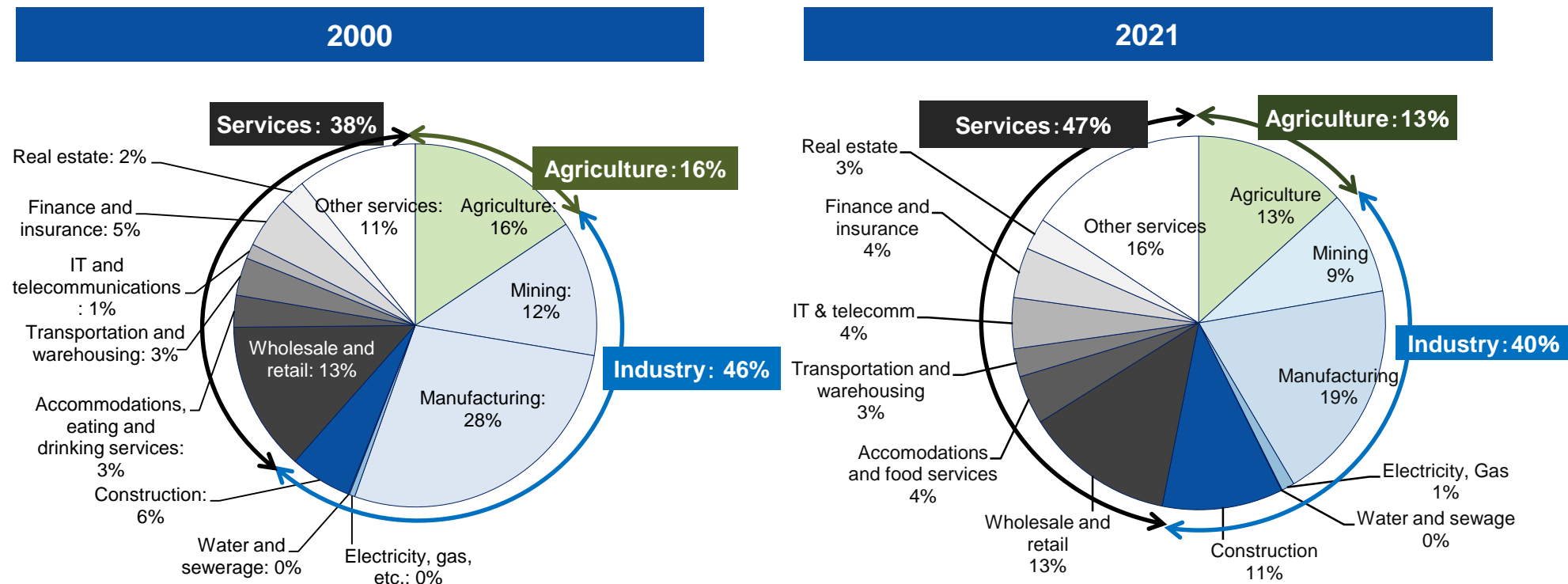
### Overview of Indonesia

- ✓ The Republic of Indonesia is the world's largest island nation, consisting of 13,466 islands. With the world's fourth largest population and the world's largest Muslim population, each region has its own culture, so maintaining cohesion as a nation is one of the challenges.
- ✓ After independence in 1945, the country's abundant resources helped build a strong economy.
- ✓ Since 1983, the country has developed an export-oriented economy utilizing foreign capital, and it has continued sustained economic growth. Although the Asian currency crisis of 1997 caused an economic crisis, the economy recovered under the guidance of the IMF. In recent years, the economy has been solid, reflecting strong domestic consumption.
- ✓ In 2020, the economy entered its first recession since the currency crisis due to the impact of coronavirus, but the economy recovered quickly and recorded 3.7% real GDP growth in 2021.

## I-3. Economic Structure (Industry/Trade) (1): Industrial Structure

- In the agricultural sector, production of palm oil and other products remained stable. Mining's share was 10%–12% from the late 1990s to around 2010, but it declined due to the export ban on unprocessed ore that took effect in January 2014.
- The service sector's share has increased significantly, to the point that it has replaced the industrial sector as the largest sector in terms of percentage. As income levels rise, the service sector's share is expected to increase further in telecommunications, education, and public services.

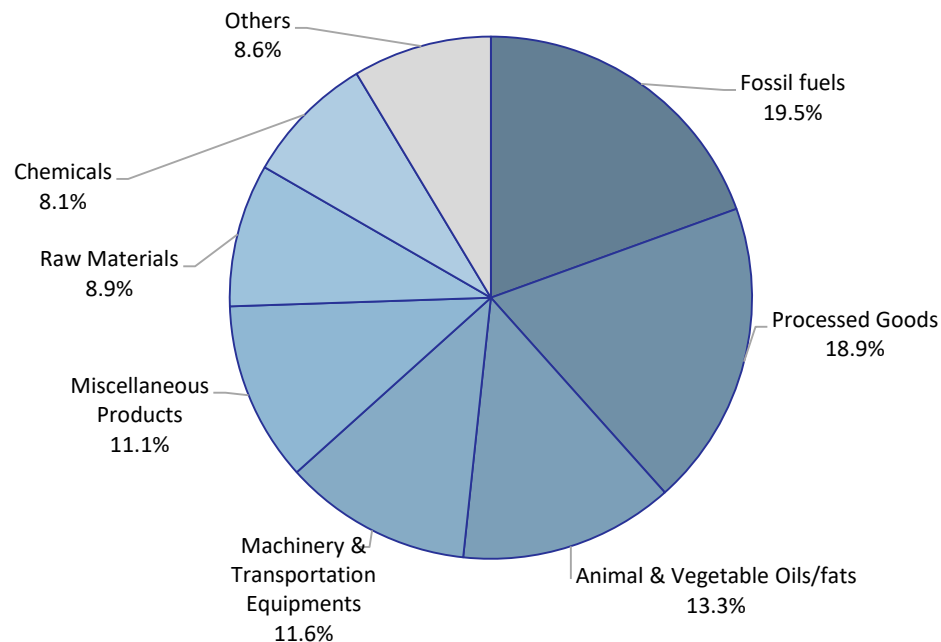
### GDP Composition by Industry (comparison of 2000 and 2021)



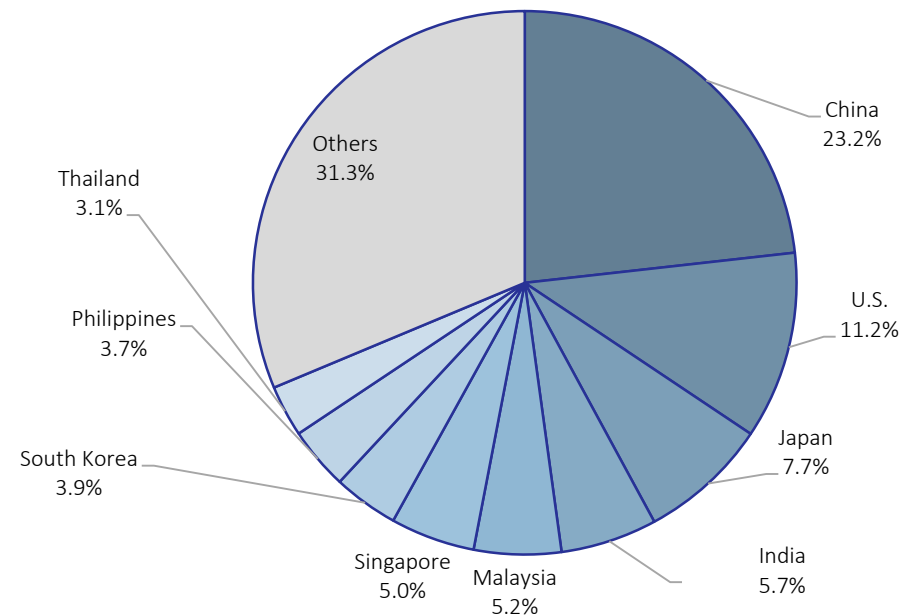
## I-3. Economic Structure (Industry/Trade) (2): Export Structure

- Indonesia's total exports in 2021 amounted to US\$231.6 billion, increased US\$68.4 billion from the previous year. Benefiting from soaring resource prices, the country returned to a large trade surplus and achieved a current-account surplus for the first time in 10 years
- Indonesia is a resource-rich country, and before coronavirus, exports of mining products (coal, natural gas, crude oil, ores, etc.) accounted for more than 20% of its total exports.
- China receives the highest share of exports from Indonesia compared to other countries/regions. In 2021, the value of exports increased significantly by +69% from the previous year, mainly due to an increase in non-oil and gas exports to China

Breakdown of Exports by Goods (2021)



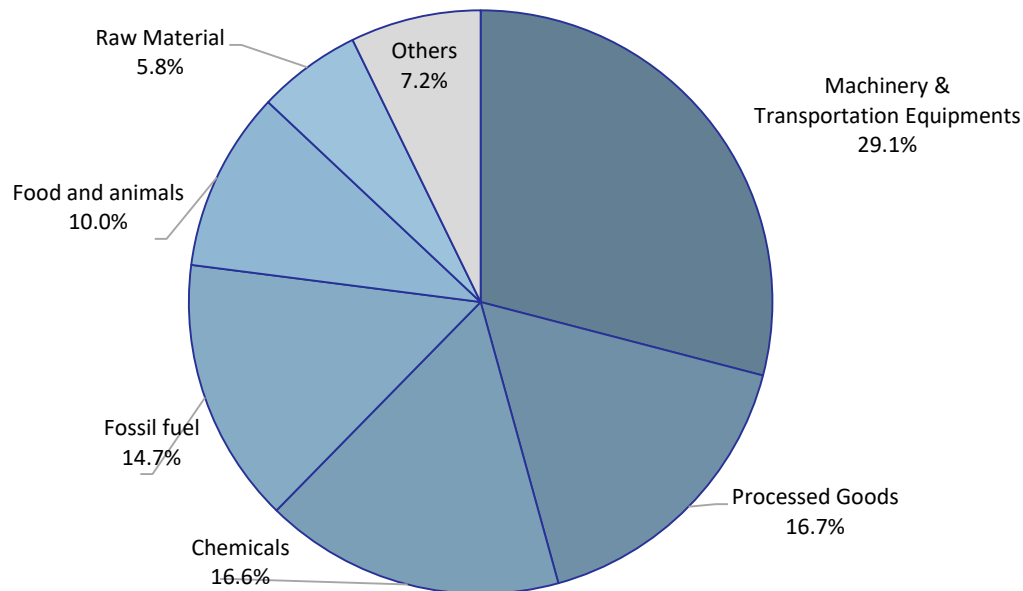
Breakdown of Exports by Country/Region (2021)



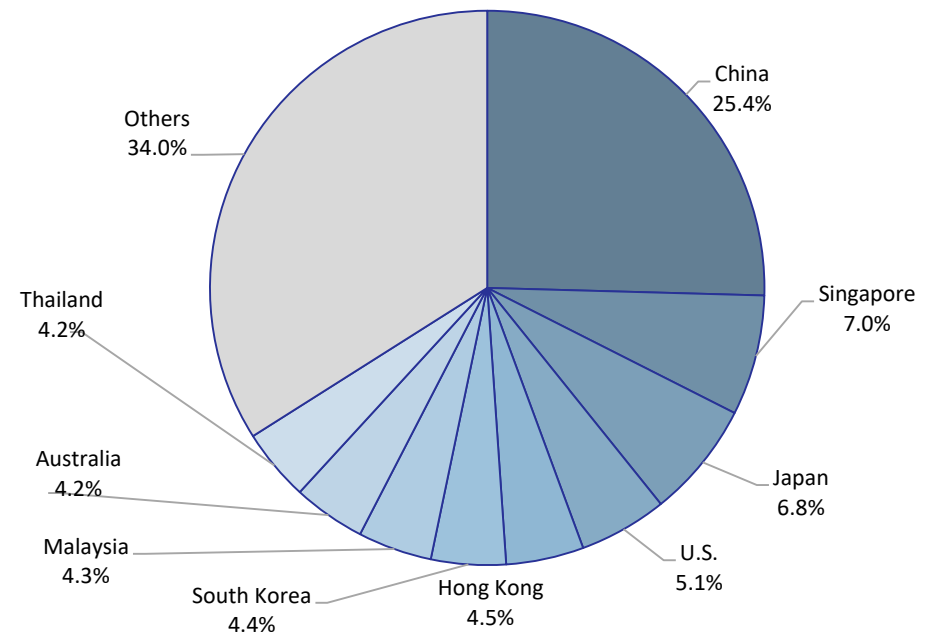
## I-3. Economic Structure (Industry/Trade) (3): Import Structure

- Indonesia's total imports in 2021 were US\$196.3 billion, increased US\$54.6 billion from the previous year. Indonesia has traditionally had a trade deficit, but starting in February 2020, imports from China dropped sharply due to the coronavirus, and the trade balance turned into a surplus.
- By item, machinery and transportation equipment occupy the largest share. Parts and raw materials for automobiles and for electrical products manufactured in Indonesia are imported from China and other countries. Petroleum-related products such as chemical products and mineral fuels also occupy a high share of imports but are gradually declining.

### Breakdown of Imports by Goods (2021)



### Breakdown of Imports by Country/Region (2021)





## I-4. Social, Economic and Industry Characteristics (1): Social and Economic Characteristics

- Indonesia has the largest Muslim population in the world and is the world's fourth most populous country. As the number of middle-income earners grows, the country is transitioning from "a production base" to "a vast consumer market."
- Indonesia is one of ASEAN's leading economic powers. Its economic structure is reliant on natural resources, and so the country is seeking to break away in the future from being a resource export-dependent economy.
- While the political situation is stabilizing, trends toward protectionism and religious intolerance are gradually emerging. Logistics paralysis due to underdeveloped infrastructure is an issue.

### Social and Economic Characteristics

<b>Social</b>	<ul style="list-style-type: none"> <li>✓ Largest population in ASEAN and fourth largest in the world (270 million people approx.)</li> <li>✓ Religions: Islam (87.2%), Christianity (9.8%), Hinduism (1.6%), etc. Slightly less than 90% of the population is Muslim. Indonesia has the largest Muslim population in the world, but Islam is not a state religion. Indonesians are required to believe in one of the five officially recognized religions (Islam, Christianity, Hinduism, Buddhism, and Confucianism).</li> </ul>
<b>Economic</b>	<ul style="list-style-type: none"> <li>✓ An "ASEAN economic power" with a nominal GDP that constitutes just under 40% of ASEAN's total.</li> <li>✓ Meanwhile, per capita GDP is at a medium level within the ASEAN region.</li> <li>✓ The country achieved economic growth by exporting resources, mainly oil and coal, but it developed a trade deficit from around 2012. The economy may weaken in the future in the event of depreciation pressure on the currency.</li> <li>✓ Domestic demand due to domestic consumption drives over half the economy, and there is concern that recovery will require time in the event of a recession.</li> </ul>
<b>Political</b>	<ul style="list-style-type: none"> <li>✓ Democratic republic, presidential system. President Joko Widodo was elected in 2014. He was reelected in April 2019 and started the second Joko administration.</li> <li>✓ The People's Consultative Assembly is composed of the People's Representative Council (DPR; fixed at 575 people) and the Regional Representative Council (DPD; fixed at 136 people)</li> <li>✓ President Joko Widodo had a weak political base immediately after his inauguration because he had no experience in national affairs and was not from the military, but his political base stabilized after three cabinet reshuffles. However, domestic protectionist and religious intolerance movements are emerging recently.</li> </ul>
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>✓ A maritime nation composed of over 13,000 islands</li> <li>✓ Infrastructure development is delayed both on land and at sea, and logistics requires time and money.</li> </ul>

## I-4. Social, Economic and Industry Characteristics (2): Industry Characteristics

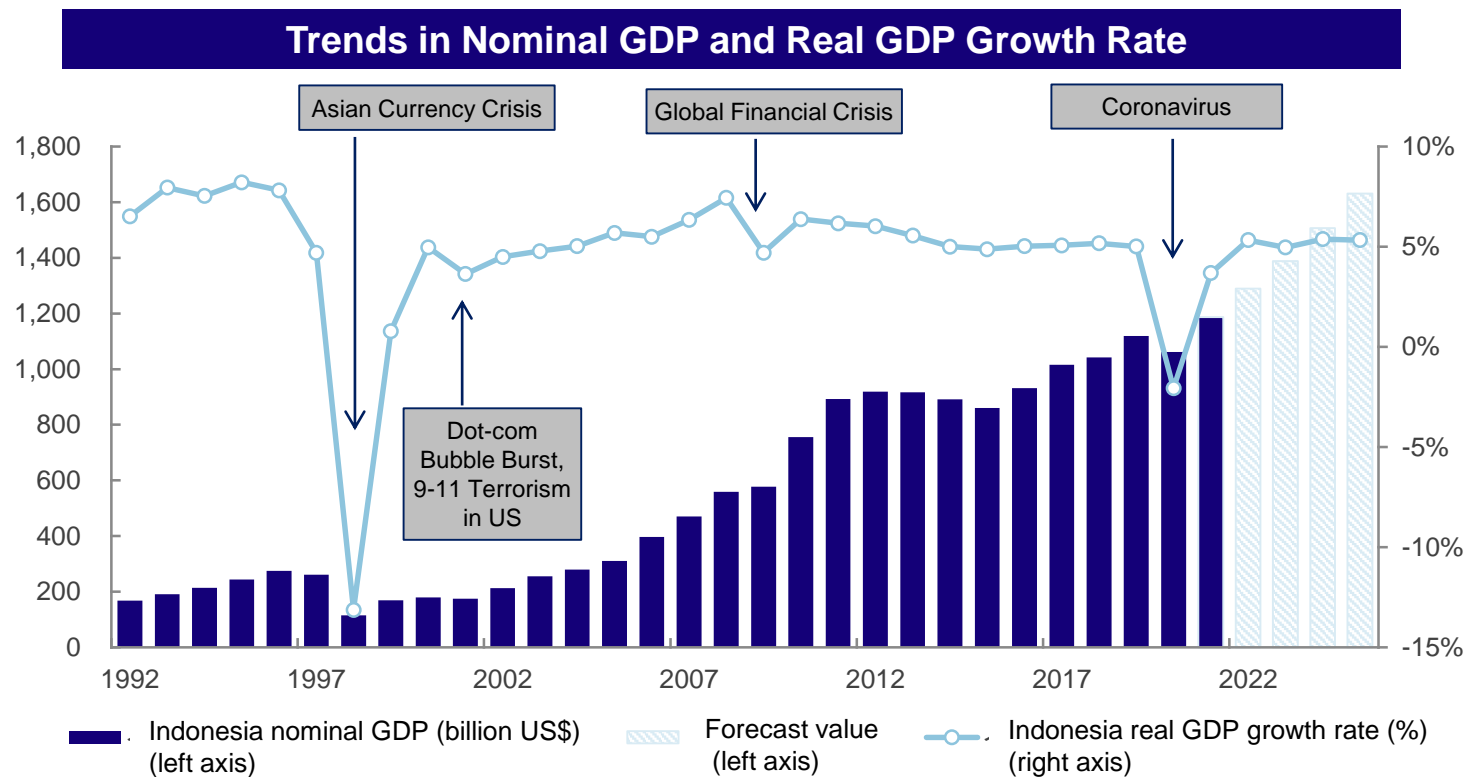
- Up to the early 1990s, direct investment was active centered on labor-intensive manufacturing industries, and it became a major industry.
- Subsequently, following the Asian currency crisis (1997-1999), problems were pointed out, such as the underdeveloped transportation network, unstable power supply, and corruption, etc., and improvement of the investment environment appeared to be delayed.
- Complex investment regulations and soaring labor costs are causing sluggish growth in the export-oriented manufacturing industry compared to neighboring countries. The Omnibus Law enacted in November 2020 introduced labor law reforms and significant relaxation of foreign investment restrictions.

### Features and Trends of Main Industries

	Manufacturing	Wholesale/Retail	Agriculture/Forestry
Features	<ul style="list-style-type: none"> <li>✓ An up-and-coming country in the automobile industry in ASEAN, following Thailand</li> <li>✓ Japanese manufacturers account for the majority of both the automobile and motorcycle markets</li> </ul>	<ul style="list-style-type: none"> <li>✓ Given that Indonesia has the world's fourth largest population and the continuation of the demographic dividend, the market is expected to continue expanding as the middle class increases.</li> <li>✓ Regulatory revisions in 2021 eased restrictions on foreign investment (with some exceptions).</li> </ul>	<ul style="list-style-type: none"> <li>✓ The main crops are rice, corn, soybeans, etc., which cultivated by small-scale farmers mainly in Java.</li> <li>✓ Palm oil and rubber are mass-produced on plantations on Sumatra, etc., and are major export products.</li> </ul>
Recent Trends	<ul style="list-style-type: none"> <li>✓ The government announced its electric vehicle (EV) production roadmap in July 2021. The plan is to produce 400,000 EVs in 2025, 600,000 in 2030, and 1 million in 2035.</li> <li>✓ The EV industry will continue to be a focus of attention, given the announcements regarding the establishment of an EV production base by Hyundai Motors of Korea and a battery plant by LG as well as reports that CATL of China and Tesla of the US are considering investment.</li> </ul>	<ul style="list-style-type: none"> <li>✓ In recent years, major e-commerce companies from Indonesia, such as GoTo Group which merger between Gojek and Tokopedia, have also emerged.</li> <li>✓ There is also a movement by Japanese companies and multinational companies to invest in local startups.</li> <li>✓ Due to the impact of coronavirus, it is expected that the use of e-commerce channels will expand against the backdrop of a high mobile phone penetration rate compared to other countries.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Forest area occupies 70% of the country, centered around Kalimantan Island and Indonesia has the third-largest tropical forest in the world.</li> <li>✓ In recent years, deforestation has progressed due to illegal open burning.</li> </ul>

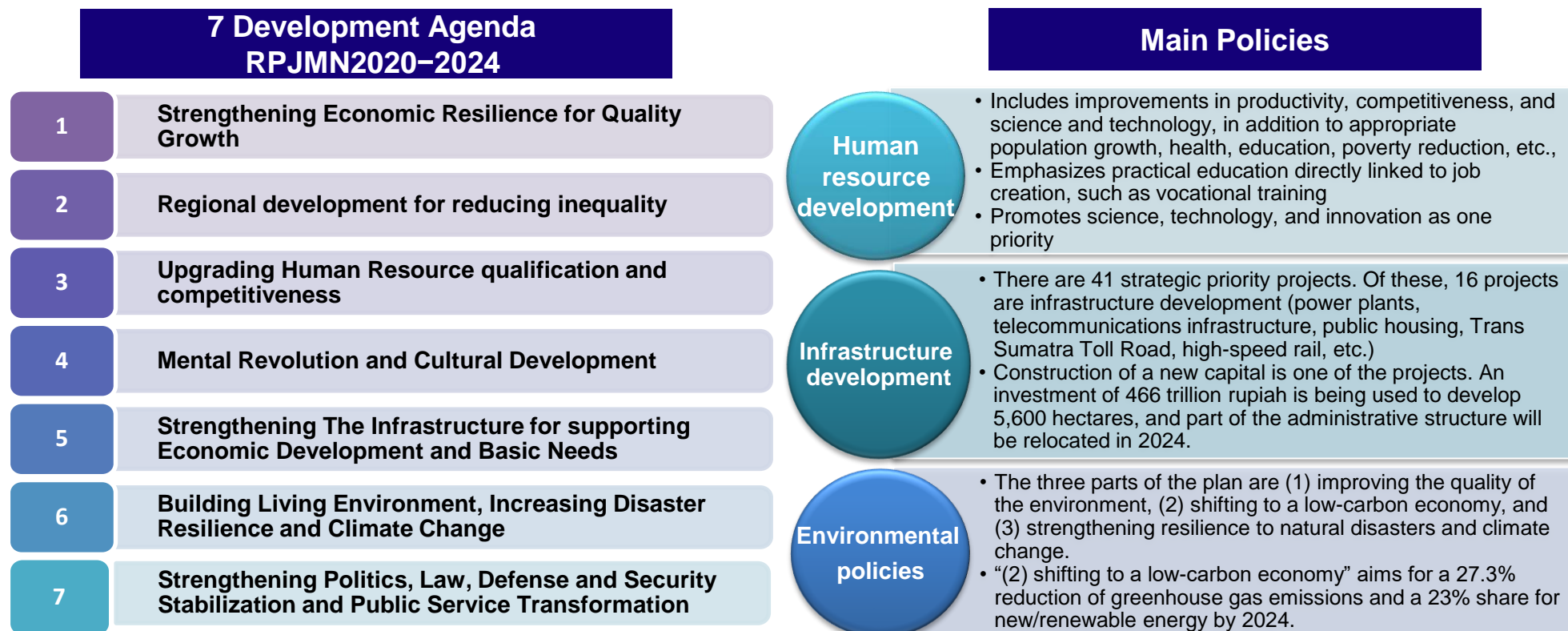
## I-5. Economic Environment: Mid- to Long-term Growth Trends

- Due to reforms after the decline in oil prices in 1983, direct investment in export-oriented manufacturing increased sharply. This greatly contributed to economic growth.
- The currency crisis began in Thailand in 1997 and spread to Indonesia. Although the real GDP growth rate fell sharply in 1998, it gradually recovered against the backdrop of IMF support and rising crude oil prices.
- In the 2000s, the real GDP growth rate improved gradually and stayed around 5%, backed by strong domestic consumption. On the other hand, in 2020 the economy experienced negative growth for the first time since the Asian currency crisis due to the impact of the coronavirus, but it recovered to the 3% range in 2021.



## I-6. Policies

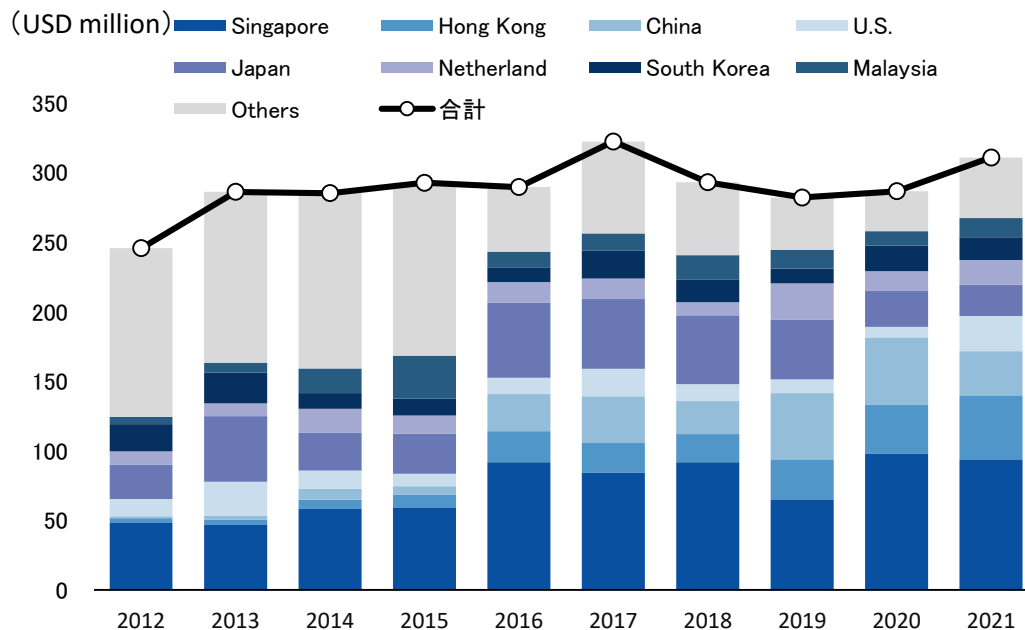
- Indonesia's development plans consist of its National Long-Term Development Plan 2005–2025, its National Medium-Term Development Plan 2020–2024, and annual Action Plans. The five-year policy of the second Joko administration, known as the Medium-Term Development Plan (RPJMN), was promulgated by presidential decree in January 2020.
- President Joko has set targets for a GDP growth rate of 5.7%–6.0% and a nominal GNI per capita of US\$5,810–US\$6,000. The president has also prioritized infrastructure development and human resource development. The aim is to break away from an export-dependent industrial structure by fostering and strengthening the manufacturing sector and developing new industries.



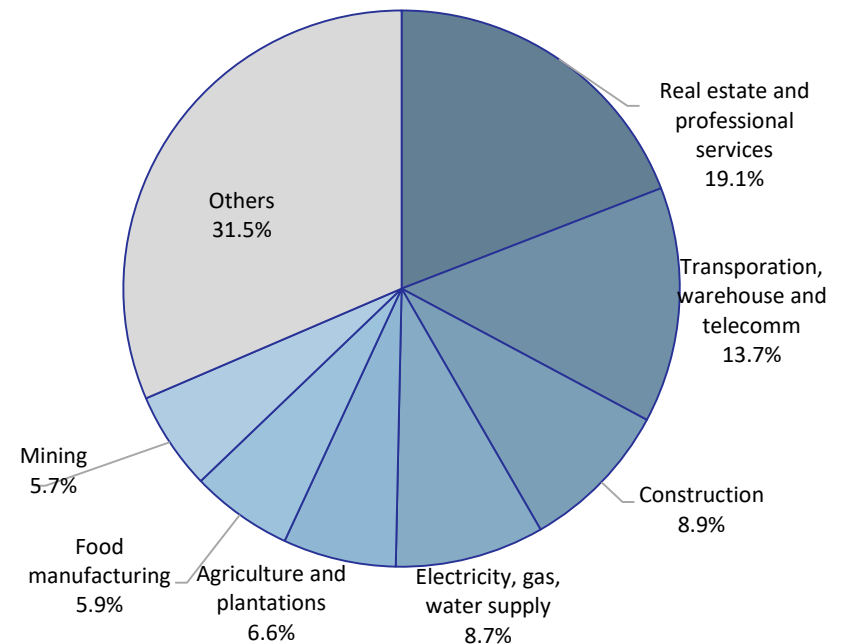
## I-7. Foreign Direct Investment(FDI) Trends to Indonesia

- FDI to Indonesia have been almost flat since 2013. Despite the impact of the Covid-19 pandemic, the FDI amount has been slightly increasing since 2020 due to the easing of restrictions on foreign investment.
- Looking at investment flows by country/region, investment from Japan formerly accounted for around 15% of the total, second only to Singapore, where headquarters of ASEAN companies are concentrated. However, since 2019, China's share surpassed Japan's.
- Realized investment by foreign firms through 3Q 2022 (January–September) was approximately US\$ 33,400 million. This amount already ahead of 2021 annual performance

### FDI Flow trends by country/region



### FDI by industry (2021)

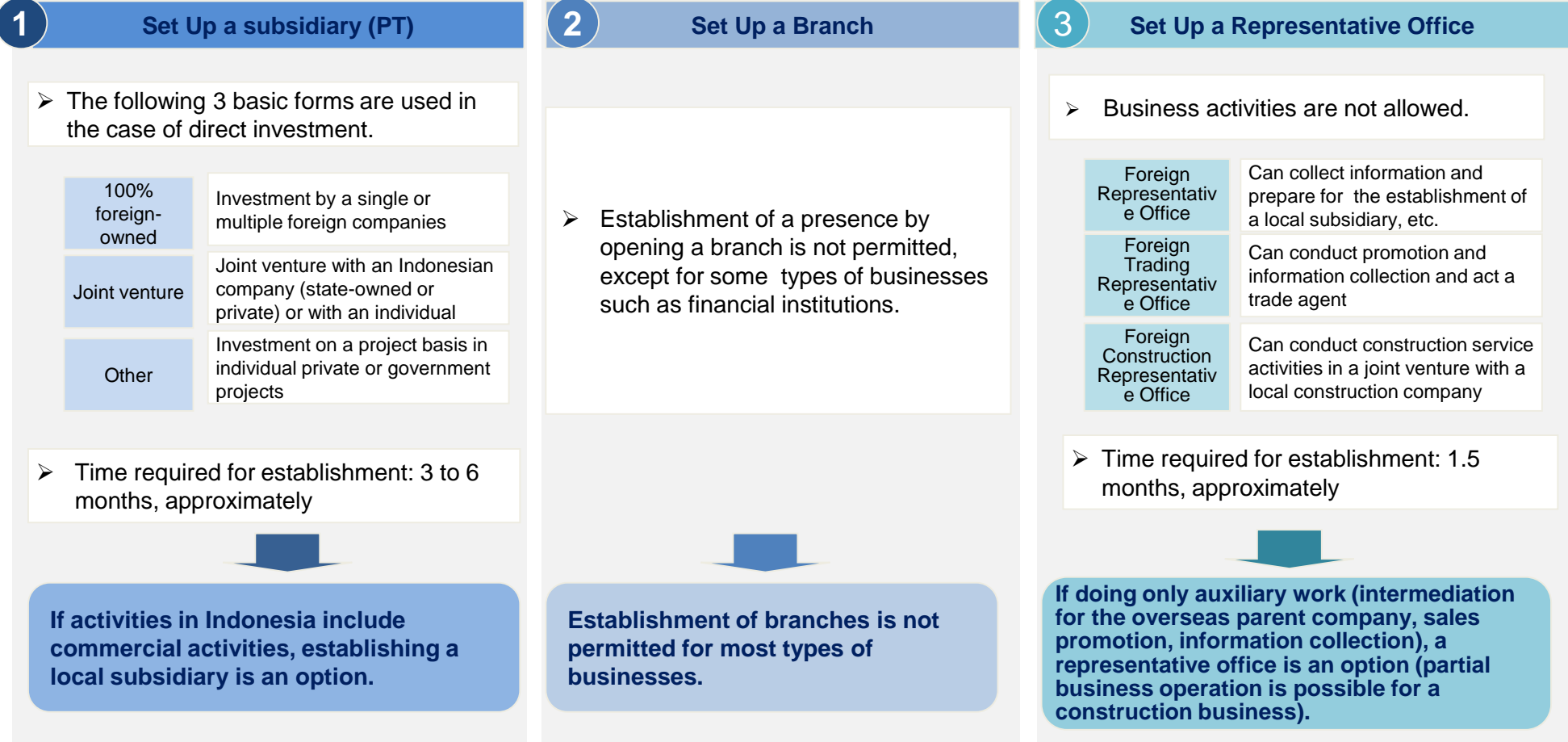


## II. Establishing a Local Subsidiary

## II-1. Business Entity Types (1): Overview

- In Indonesia, foreign companies are allowed to establishing a presence in the following three ways.
- Since most industries are not allowed to open a branch office, it is common to start as a local subsidiary.

### Basic Forms of Investment and Establishing a Presence in Indonesia



## II-1. Business Entity Types (2): Local Subsidiaries

- A local subsidiary of a foreign-owned company can be established either with 100% foreign capital or as a joint venture with an Indonesian company.
  - A company established by a foreign company is called a foreign investment company (PMA company (Perusahaan Penanaman Modal Asing)).
  - Check the investment negative list (Daftar Negative Investasi (DNI)) because there are investment restrictions depending on the business field.
- Regardless of the nationalities of the shareholders, local subsidiaries are considered Indonesian companies and must comply with Indonesian law.
- Stock companies are classified as shown below according to the number of shareholders, the minimum capital amount, and whether or not they are listed on the stock market.

### Business Entity Type: Local Subsidiary

#### Corporation (PT)

Private Companies (PT Tertutup)	Public Stock Companies (PT Tbk)	
【Form of company name: PT ●●●】	【Form of company name: PT ●●● Tbk】	
<ul style="list-style-type: none"> <li>➢ Minimum number of shareholders: 2</li> <li>➢ Minimum capital:               <ul style="list-style-type: none"> <li>Foreign-affiliated companies have a minimum capital requirement of IDR 10 billion or more</li> </ul> </li> <li>➢ Minimum number of directors: 1</li> <li>➢ Apply to the Ministry of Law and Human Rights to receive a business permit</li> </ul>	Public companies (Perseroan Publik)	Companies registered in the securities market (Emiten)
	<ul style="list-style-type: none"> <li>➢ Minimum number of shareholders: 300</li> <li>➢ Minimum capital: IDR 3 billion</li> <li>➢ Application of the regulations for the protection of shareholders</li> <li>➢ Application of the Company Law</li> </ul>	<ul style="list-style-type: none"> <li>➢ Companies registered in the securities market</li> <li>➢ Submission of registration notification to the Financial Services Authority of Indonesia (OJK: Otoritas Jasa Keuangan) to sell shares to the public ⇒ Listing on the stock exchange</li> </ul>



## II-1. Business Entity Types (3): Representative Offices

- Representative offices are operated by one or more expatriates appointed by a foreign company or a joint venture between foreign companies
- Representative offices are classified into three types according to type of business and purpose. Establishment conditions and permissible activities differ depending on the type of the representative office.

### Business Entity Type: Representative Office

	(1) Foreign Representative Office Kantor Perwakilan Perusahaan Asing: KPPA	(2) Foreign Trading Representative Office Perwakilan Perusahaan Perdagangan Asing	(3) Foreign Construction Representative Office (*) Perwakilan Badan Usaha Jasa Konstruksi Asing
<b>Goals</b>	<ul style="list-style-type: none"> <li>➢ Preparation for establishment and opening, etc., of foreign investment company</li> </ul>	<ul style="list-style-type: none"> <li>➢ Market research and promotion</li> </ul>	<ul style="list-style-type: none"> <li>➢ Provision of construction services in Indonesia</li> </ul>
<b>Activities</b>	<ul style="list-style-type: none"> <li>➢ Preparation work for company establishment</li> <li>➢ Supervision and liaising for related local subsidiaries in Indonesia</li> <li>➢ Valid period: 3 years (extendable)</li> </ul>	<ul style="list-style-type: none"> <li>➢ Introduction and promotion of products manufactured in foreign countries</li> <li>➢ Market research, managed sales</li> <li>➢ Signing of export contracts with local companies</li> <li>➢ Valid period: 3 year (extendable)</li> </ul>	<ul style="list-style-type: none"> <li>➢ Liaise with individuals, corporations and government agencies to develop business in the local market</li> <li>➢ It is possible to provide construction services without establishing a local subsidiary by concluding a joint operation(JO) agreement with a local construction company.</li> <li>➢ Valid period: 3 years (extendable)</li> </ul>
<b>Restrictions</b>	<p>The following activities cannot be conducted:</p> <ul style="list-style-type: none"> <li>➢ Profiting from imports/exports or sales transactions</li> <li>➢ Involvement in business operations of group companies</li> </ul>	<p>The following activities cannot be conducted:</p> <ul style="list-style-type: none"> <li>➢ Direct transactions, sales activities</li> <li>➢ Bidding, complaint processing</li> <li>➢ Import/export operation (Necessary to contract with a local agent)</li> </ul>	<ul style="list-style-type: none"> <li>➢ The Rep. office must conclude a Joint Operation (JO) agreement with local construction company</li> <li>➢ The Rep. office must ensure technology transfer to the JO local partner</li> <li>➢ The Rep. office must join membership in a local contractor association that is registered to the Construction Service Development Board (LPJK)</li> <li>➢ The Rep. office must be registered to Construction Information Service System (SIJK) of the Ministry of Public Works and National Housing</li> </ul>
<b>Staff Requirements</b>	<ul style="list-style-type: none"> <li>➢ The representative must live in Indonesia</li> <li>➢ The representative does not concurrently hold the position of company representative and/or other position in other representative office</li> <li>➢ If the representative is a foreigner, the Rep. office has to employ Indonesian worker in accordance with the law</li> </ul>	<ul style="list-style-type: none"> <li>➢ It is possible to nominate a foreign national as the head of the office.</li> <li>➢ Foreign nationals who are employed shall have at least a college degree, or the equivalent, and have at least 3 years of experience in the field.</li> <li>➢ There is an obligation to employ 3 Indonesian citizens for each foreign national employed.</li> </ul>	<ul style="list-style-type: none"> <li>➢ If foreign workers are hired, then Indonesian citizens with similar abilities must be hired.</li> </ul>

## II-2. Procedure to Establish a Local Subsidiary

- On June 21, 2018, Government Regulation No 24 of 2018 regarding Electronic Integrated Business Licensing Services was promulgated and enforced.
- Much of the investment licensing authority has been transferred from the Investment Coordinating Board (BKPM) and other agencies to Online Single Submission (OSS) managed by the Coordinating Ministry for Economic Affairs (CMEA).

<p><b>Preparation</b></p>	<ul style="list-style-type: none"> <li>✓ Business operators decide company name, prepare articles of incorporation draft, obtain certificate of domicile (from office landlord), and tax number (from tax office), and open a bank account (issue a proof of capital payment)</li> <li>✓ Business operators obtain incorporation approval from the Ministry of Justice and Human Rights through its online system.</li> </ul>
<p><b>Registration</b></p>	<ul style="list-style-type: none"> <li>✓ Business operators access the OSS system and register related information (name, business sector, investment plan, employment plan, taxpayer number, etc.) associated with the business.</li> <li>✓ After registration, the OSS system will issue a Single Business Number (NIB: Nomor Induk Berusaha). NIB is a number required to obtain a subsequent business licenses and operating permits, and it integrates/substitutes for the company registration certificate (TDP), importer certification number (API), and customs access rights.</li> </ul>
<p><b>Business License</b></p>	<ul style="list-style-type: none"> <li>✓ When the NIB is granted, the OSS system will also issue the risk level based on the business activity. Business license requirement is based on this risk level.</li> <li>✓ Business risk level is divided into four levels: low, medium low, medium high, and high risk. Businesses with low risk level can operate only by obtaining an NIB</li> <li>✓ Business license includes site permit, water area location permit, environmental permit and construction permits (IMB), which must be satisfied within a specified period of time</li> <li>✓ Businesses that have obtained a business license can procure land, construct and manage buildings, procure equipment and materials, hire employees, and carry out production activities, etc.</li> </ul>
<p><b>Commercial/ Operation License</b></p>	<ul style="list-style-type: none"> <li>✓ After the business license is approved, apply for commercial and operation licenses, as necessary. At that time, standards or certificates for goods and services are required.</li> <li>✓ Before commercial and operation licenses are issued, it is necessary to meet required commitments such as Indonesian National Standards (SNI), Good Manufacturing Practice for Pharmaceuticals (CPOB) certification, and import approval, etc., must be met.</li> <li>✓ Applicants can start commercial activities after obtaining a commercial and operation licenses, but import/export operators need additional permits, depending on the sector.</li> </ul>

### Points

- ✓ Since there is no investment registration procedure in BKPM, there is no prior confirmation of compliance with foreign capital regulations by the authorities; however, since there is post-supervision as an alternative, there is a risk that conflicts with foreign capital regulations will be found after the establishment of the company, so it is necessary to check thoroughly in advance.
- ✓ Meanwhile, foreign-affiliated companies separately has to submit Investment Activity Reports (LKPM) to BKPM four times a year.

### III. Regulations, Incentives, Reference Information

## III-1. Regulations for Foreign Investors (1): Overview

- Foreign-owned companies are restricted from investing in the industries on the list of business fields open with certain conditions. However, 100% foreign-owned investment is possible in other business fields in principle. In addition, there are some fields where investment is permitted with some conditions, so individual confirmation is required.
- In February 2021, regulated fields were significantly deregulated as part of the Omnibus Law, but in May 2021 the minimum capital was raised from IDR 2.5 billion to IDR 10 billion.

### Foreign Investment Regulations

#### List of Business Fields Open with Certain Conditions

- ✓ Aside from the 46 business fields on the negative list, 100% foreign-owned investment in business fields is possible.

#### Minimum Capital Regulations

- ✓ In the case of foreign-owned companies, **capital of IDR 10 billion or more** is required

#### Minimum Investment Regulations

- ✓ In general, foreign-owned company is required to **invest at least 10 billion rupiah, excluding land and building, for each 5-digit KBLI(industry number) that it applies.**
- ✓ For real estate development companies engaged in multi-unit housing and building development, the amount of investment in land and buildings is included in the 10 billion rupiah.
- ✓ For the wholesale industry, the 10 billion rupiah minimum investment (excluding land and building) is required for each 4-digit KBLI.

#### Other Regulations

- ✓ Minimum number of shareholders: 2 (may be corporation or individual)
- ✓ Share ownership is calculated based on the par value of the shares (the par value of the shares is at least 10 million rupiah for each shareholder).
- ✓ **Foreign-owned companies** are classified as “large companies” regardless of their size, and **they must meet the condition of possessing net assets of IDR 10 billion or more, or sales of IDR 50 billion or more.**

## III-1. Regulations for Foreign Investors (2): Investment Business Fields

- Presidential Regulation No 10 of 2021 concerning Investment Business Activities announced in February 2021 significantly deregulated the business fields where investment by foreign-owned companies was previously restricted by a Negative List.

### Main Deregulated Business Fields

Sectors	Business Areas	Former Foreign Capital Maximums (2016)	New Investments Areas and Foreign Capital Maximums (2021)	Sectors	Business Areas	Former Foreign Capital Maximums (2016)	New Investments Areas and Foreign Capital Maximums (2021)		
Marine, Fisheries	Capture fisheries	No foreign capital	Investment priority area (eligible for Tax Allowance), provided that businesses are integrated with fish processing industry 100%	Tourism	Travel agencies	67%	All other areas 100%		
Catering	67%								
Game centers	67%								
Energy, Mineral resources	Small-scale power generation (1-10 MW)	49%	Investment priority area (eligible for Tax Allowance) 100%	Transportation	General and special land freight transportation	49%	All other areas 100%		
	Power generation over 10 MW	95%							
Defense, Security	Security personnel, equipment, training, consulting	49%	All other areas 100%		Telecommunications	e-commerce platform (Investment amounts under IDR 100 billion)		49%	Investment priority area (eligible for Tax Allowance) 100%
Commercial	Supermarkets (sales area under 1200 m <sup>2</sup> )	No foreign capital	All other areas 100%			Labor		Temporary staffing	49%
	Department stores (sales are 400-2,000 m <sup>2</sup> )	67%		Job training			67%		
	Specialty shops for electronics, cosmetics, furniture, jewelry, etc.	No foreign capital			Overseas human resources placement		No foreign capital		
	General distributors (wholesale)	67%		Health		Eyeglass stores	No foreign capital	All other areas 100%	
	Warehouses	67%			Medical device supplier	49%			
	Real estate agencies	No foreign capital				Hospitals, dentists and other specialized clinics	67%		
Building cleaning services	No foreign capital								

## III-1. Regulations for Foreign Investors (3): Investment Business Fields

- In addition to the businesses on the list of business fields open with certain conditions, there are sectors where foreign-owned companies' investment ratio continues to be restricted, such as sectors reserved for local small- and medium-size enterprises and micro-enterprises.
- For actual investments, it is necessary to confirm the investment regulations of BKPM as well as the regulations of the proper ministries and agencies for each business.

### Main Regulated Business Fields

Sector	Business Field	Foreign Capital Ratio	Notes
Energy, mineral resources	Small-scale power generation (less than 1 MW)	No foreign capital	
Public works	Construction, construction consultation (low to medium technology, risk, and scale)	No foreign capital	
	Construction, construction consultation (advanced technology, risk, and scale)	67%	
Industry	Alcoholic beverage manufacturing	No foreign capital	No new capital, including domestic
Commerce	Pharmacies and drugstores	No foreign capital	
	Mini-marts (convenience stores)	No foreign capital	
	Retail at streetside stores outside supermarkets and shopping malls	No foreign capital	
	Specialty shops for shoes, drinks, rice, bread, fresh food, etc.	No foreign capital	
	Laundries, hair salons, tailors, office services (printing, etc.)	No foreign capital	
Tourism	Hotels, guesthouses, etc., with 2 stars or fewer	No foreign capital	
Telecommunications	News publishers such as newspapers, magazines, etc. (reporting)	No foreign capital	49% foreign capital allowed for existing corporations
	Commercial broadcast stations, radio stations	No foreign capital	20% foreign capital allowed for existing corporations
Transportation	Air and sea freight transportation	49%	

## III-2. Investment Promotion (1): Preferential System by Industry (Tax Holidays)

- Under the Presidential Regulation No 10 of 2021 on Investment Business Area, among areas designated as investment priority areas, 18 areas mainly in the Pioneer industry are entitled to benefit from 50% to 100% reduction in corporate tax for 5 to 20 years from the start of commercial production, depending on the amount invested

### Pioneer Industries (18 sectors, 174 industries)

- Upstream metal industry (steel/non-steel)
- Oil and gas refining industry
- Fossil fuel industry for natural gas/coal
- Basic organic chemical industry centered on agriculture, plantations, and forestry
- Basic inorganic chemical industry
- Pharmaceutical raw material industry
- Manufacturing industry for radiation, electromedical, and electrotherapy equipment
- Manufacturing industry for major electronic and telematics equipment such as semiconductor wafers, LCD backlights, electric drives, and displays
- Manufacturing industry for main parts of mechanical engines
- Manufacturing industry for robot parts that support manufacturing
- Manufacturing industry for main parts of power generators
- Manufacturing industry for automobiles and major automotive parts
- Manufacturing industry for main parts of ships
- Manufacturing industry for main parts of railways
- Manufacturing industry for main parts for aviation and aerospace industry support businesses
- Agriculture, plantation, and forestry processing industry
- Economic infrastructure
- Digital economy

### Grant Conditions and Tax Exemption Measures

#### Grant conditions

- ✓ Taxpayers who operate a pioneer industry
- ✓ Taxpayers who meet the debt-to-capital ratio required by the Ministry of Finance regulations
- ✓ New capital investment of at least 100 billion rupiah
- ✓ Commitment to begin investment within one year after the tax holiday incentives has been authorized

#### Incentives

Tax reduction may be given for two more years after the authorized period, by 25% for investment of 100 billion~less than 500 billion rupiah, and by 50% for investment of 500 billion rupiah or more

Investment Amount (IDR)	Tax reduction and Period
100 bil.~less than 500 bil.	5 years, 50% reduction
500 bil.~less than 1 tril.	5 years, 100% reduction
1 tril.~less than 5 tril.	7 years, 100% reduction
5 tril.~less than 15 tril.	10 years, 100% reduction
15 tril.~less than 30 tril.	15 years, 100% reduction
30 tril. or more	25 years, 100% reduction

## III-2. Investment Promotion (2): Preferential System by Industry (Tax Allowance)

- Corporate Income tax incentives are provided for new investments made by existing companies in specific business areas or regions. Based on industry classification codes (KBLI), the target industries are 166 industries nationwide and 17 industries limited to specific regions.
- These incentives can be applied not only to a new investment but also to the expansion of an investment.

### Details of Incentive Measures

1	30% of investment is deducted from net income	Every years for 6 years, 5% of the investment can be deducted from net income
2	Shortened depreciation period (accelerated depreciation)	Twice the normal depreciation cost can be claimed
3	Reduction of tax on dividends to foreign countries	The tax rate on dividends to foreign countries is reduced to 10%. However, if the tax rate under a tax treaty is 10% or less, it will apply.
4	Extension of deferred loss period	The deferral period, which is usually 5 years, can be extended up to 10 years if certain conditions are met.

### Promoted Industries (183)

#### Promoted Industries (A)

1. Food seasoning
2. Textiles and clothing
3. Pulp and papermaking
4. Industrial chemical materials
5. Chemical materials for pharmaceuticals
6. Rubber
7. Porcelain insulators
8. Steelmaking and steel
9. Basic metals other than iron
10. Machinery (turbines, compressors, steelmaking machinery, textile machinery, etc.)
11. Generators
12. Electronics, communication equipment (flash disks, MP3, MP4, digital players, printers, TV LCD, TV plasma, CCTV, etc.)
13. Land transportation (metalworking, vehicles with four or more wheels and accessories)
14. Shipbuilding and repair

#### Promoted Industries (B)

1. Fish canning business
2. Agricultural product processing
3. Paper and cardboard packaging
4. Plastic packaging
5. Cement and lime industry
6. Furniture manufacturing industry
7. Marine fisheries and fish processing

### Conditions for Extending the Incentives Period

- ✓ Extended for 1 year for each of the following conditions
  1. New investment in industrial zones and bonded zones
  2. Investment in New / Renewable Energy sector
  3. Employs more than 300 Indonesian workers for 4 consecutive years
  4. Invests more than IDR 10 billion in regional economic and social infrastructure
  5. Uses 70% or more of domestic raw materials from the 2nd year after investment
- ✓ Extended for 2 years for each of the following conditions
  1. Employs more than 600 Indonesian workers for 4 consecutive years
  2. Spent 5% of total investment on R&D expenses in 5 years
  3. Export 30% or more of total sales to customer located outside the bonded zone



## III-2. Investment Promotion (3): Other Preferential Systems

■ Preferential system by region and other preferential systems are as follow.

Type of Preferential System		Main Content of Preferential Treatment	Eligible Areas
Preferential System by Region	Special Economic Zone (SEZ)	<ul style="list-style-type: none"> <li>Eligible for approximately 20%–100% tax reduction for up to 25 years depending on investment plan</li> <li>VAT exemption on imports of raw materials</li> <li>Simplification of certificate of origin acquisition procedure</li> <li>Foreign investors investing in SEZs can own assets, obtain residence permits, etc.</li> </ul>	<p><u>12 locations in operation</u>            Processing/logistics: Arun Lhokseumawe, Sei Mangkei, Galang Batang, MBTK, Palu, Bitung, Sorong, Kendal            Tourism and creative industries: Mandalika, Tanjung Kelayang, Tanjung Lesung, Morotai  <u>7 locations planned (as of December 2021)</u>            Processing/logistics: Batam, Gresik, Tanjung Api-api            Tourism and creative industries: Nongsa, Singhasari, Lido, Likupang</p>
	Bonded Zone (KB)	<ul style="list-style-type: none"> <li>Exemption from import duties, VAT, and luxury goods sales tax</li> <li>Exemption from VAT and luxury goods sales tax for transactions in and out of bonded areas for the processing of products</li> <li>Domestic sales are possible within the upper limit (50% for finished goods, 60% for unfinished goods)</li> </ul>	Can apply at the company level with the special zone as the minimum unit
	Free Trade Zone (FTZ)	<ul style="list-style-type: none"> <li>Exemption from import duties, VAT, and other import-related taxes</li> </ul>	Batam, Bintan, Karimun, and Sabang Island area of Aceh Special Region
	Eastern Indonesia (KTI)	<ul style="list-style-type: none"> <li>50% exemption from land and building taxes</li> <li>Loss carryover for up to 8 years</li> <li>Companies that export at least 65% of their products will be given incentives when hiring foreign nationals in terms of number of persons, length of stay, and directorships held.</li> </ul>	Sulawesi (North Sulawesi, Gorontalo, Central Sulawesi, West Sulawesi, South Sulawesi, Southeast Sulawesi)
Other Preferential Systems	Import Duty Exemptions	<ul style="list-style-type: none"> <li>Exemption from import duties on machinery, supplies, and raw materials when starting or expanding a business</li> <li>The duty-free period is two years; however, if a company is a manufacturer and uses more than 30% domestic machinery, it will be exempted for four years.</li> </ul>	<ul style="list-style-type: none"> <li>The exemption only applies to 246 industries such as manufacturing, manufacturing, transportation,</li> <li>Applicable imports are limited to machines, goods and raw materials that have not yet been manufactured domestically, or are manufactured but do not meet the required specifications / quantity</li> </ul>

## III-3. Company Law (1)

- Indonesia's current Company Law was enacted in 2007 and consists of 161 articles.
- The Investment Law is the highest level of legislation governing investment activities in Indonesia
  - The first legal procedure when establishing a PMA (foreign capital) company is to apply for and obtain a basic investment permit from the Investment Coordinating Board (BKPM).

### Main Regulations of the Company Law

#### Corporate Structure

- ✓ "Company" in the Company Law refers to a joint stock company (Perseroan Terbatas). Like a joint stock company under Japanese law, it exposes its shareholders to limited liability.
- ✓ Joint stock companies are classified as either "private companies" or "public companies (Perseroan Terbuka)," the latter being classified as "large companies (Perseroan Publik)" and "companies that conduct public offerings of shares." (Most Japanese companies are private companies.)

#### Shareholders

- ✓ In Indonesia, **at least two shareholders are required**, even in business sectors where foreign capital investment can be 100%.
- ✓ Regardless of the relationship between the two minimum shareholders, the requirements of the Company Law are satisfied if the two shareholders formally exist, such as a Japanese parent company and its representative director.

#### Articles of Incorporation

- ✓ The required information in the Articles of Incorporation (Anggaran Dasar) is generally similar to that in Japanese law. The Articles of Incorporation may contain optional provisions as long as they do not violate the provisions of the Company Law.

### Main Differences with Japanese Corporations

- ✓ **Principle of permission for establishment**
  - A joint stock company is established when two or more individuals or corporations (hereafter referred to as "founders") prepare a notarized certificate of incorporation and obtain approval from the Minister of Law and Human Rights.
  - Each founder must subscribe to a portion of the company's stock, and therefore, a stock company has at least two shareholders from the time of its incorporation.
- ✓ **Corporate Management Structure**
  - The organization of an Indonesian company consists of Shareholders, Board of Directors, and Board of Commissioners
  - Each organization has different requirements for the number of employees depending on whether it is a public or private stock company.
- ✓ **Board of Commissioners**
  - This is a body that supervises the management of the company by the Board of Directors and advises the Board of Directors on management matters (similar to a Board of Auditors in Japan)
  - Under the Company Law, each commissioner (auditor), like a director, owes a duty of care to the company and is personally liable to the company for damages if he or she causes damage to the company due to a breach of this duty.

## III-3. Company Law (2)

- In the case of Indonesia, dividends are allowed only if the company is profitable for the fiscal year, and an amount up to 20% of paid-in capital must be set aside from net income as a legal reserve.

### Dividend Regulations

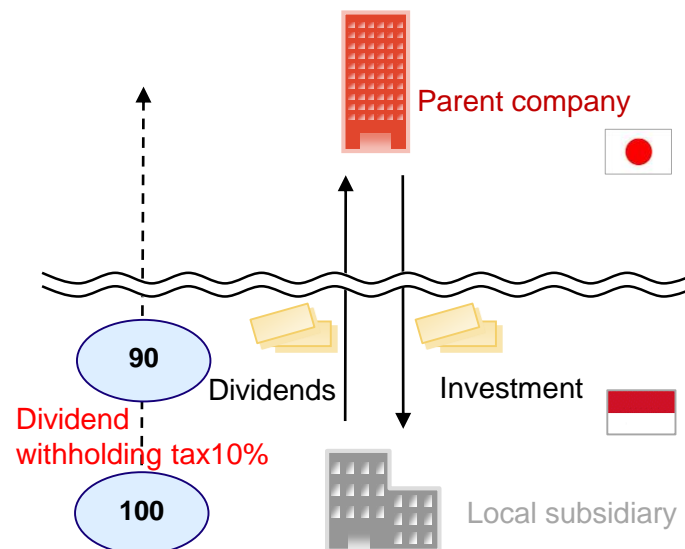
#### Dividends

- ✓ If the company is profitable on a cumulative basis each fiscal year, a certain amount of net income (up to 20% of paid-in capital) must be set aside as a legal reserve.
- ✓ The amount remaining after deducting the amount for the legal reserve from the net income is to be distributed to shareholders as dividends, although the disposition of the remaining amount is subject to resolution at the General Shareholders' Meeting.
- ✓ If there are accumulated deficits, the company is required to resolve them. If net income remains after resolving the accumulated deficits, the company is allowed to apply it to the legal reserve or to dividends to shareholders, etc.

#### Interim dividends

- ✓ Interim dividends may be paid only when specifically provided for in the Articles of Incorporation.
- ✓ When interim dividends are paid, the payment must be limited such that the company's net assets do not fall below the total of paid-in capital and legal reserve.
- ✓ If the interim dividend results in a loss as of the end of the fiscal year, the shareholders shall return the interim dividend they received. If the interim dividend cannot be returned, the Board of Directors and the Board of Commissioners are jointly and severally obligated to make up the amount.

### — Cash flow at the time of dividend payment (for Japanese parent companies with 25% or more ownership) —



#### Note: Dividend withholding tax rates

- Withholding tax on domestic resident individuals: 10%
- Withholding tax on domestic corporations: 15%
- Withholding tax on foreign (legal) persons: 20%
- However, if a tax treaty has been concluded, the tax rate is determined by the tax treaty.
- In the case of dividends sent to Japan, more than 25% stake: 10%; less than 25% stake: 15%

## III-4. Foreign Exchange Controls (1): Trade Transactions

- Foreign exchange control is regulated by the central bank, Bank Indonesia(BI). Foreign exchange control is not regulated by one single law, but it is mainly managed by the BI's regulation of foreign exchange transaction (HKPLLD), and by several Presidential Decrees, Regulations of the Minister of Finance, and BI's Notifications.
- Since it is a floating exchange rate system and the Indonesian rupiah is a minor currency, in general it is prohibited in to handle rupiah transaction outside Indonesia.

Trade Transactions	<b>Import transactions</b>	<ul style="list-style-type: none"> <li>• For transactions with 62 countries including Japan, possible settlement methods include L/C (including usance), D/P and D/A, advance payment, and consignment sales method.</li> <li>• There are 25 countries/regions with foreign currencies designated for receipt. There are no currency restrictions on import settlements</li> <li>• Foreign currencies for import settlement are required to be reported to BI no later than the last day of the third month following the month of import customs declaration.</li> </ul>
	<b>Export transactions</b>	<ul style="list-style-type: none"> <li>• For remittances from overseas involving export transaction, invoice-related information (object code, invoice number, amount) has to be submitted to the receiving bank (BI Regulation No. 21/14/PBI/2019 and others). If not complied, exporters may be ordered by BI to suspend export transactions</li> <li>• Foreign currency from export transaction must be received through domestic foreign exchange banks by the end of the third month after the registration of the Export Declaration Form (PEB)</li> <li>• If the value of the export declaration is more than US \$10,000 or an equivalent amount, export declaration date, customs code number, export declaration number and the taxpayer identification number (NPWP) of the exporter must be submitted to the foreign exchange bank no later than the 5th of the next month after receiving the foreign currency</li> <li>• If the export transaction is paid by usance L/C, consignment, open account, or collection, and the deadline exceeds 3 months after the registration of the export declaration, then the export foreign currency must be received through the domestic foreign exchange bank within 14 days from the date of the given payment deadline.</li> <li>• <u>If netting between exporter's debt and receivables results in the receipt of an export foreign currency that is less than the value of the export declaration, only netting of settlements relating to the export activity is permitted</u>, provided that there is a netting agreement between the exporter and importer</li> </ul>
	<b>Obligation to settle L/C for export of some commodities .</b>	<ul style="list-style-type: none"> <li>• L/C settlement is required for export of 13 mineral items, 7 coal items, and 2 palm oil items based on the 8-digit HS code.</li> <li>• The price listed on the L/C must be at least the same as the international price, and the L/C settlement must be done at a domestic foreign exchange bank.</li> <li>• A surveyor report (appraisal report) will not be issued unless the settlement is by L/C.</li> </ul>
	<b>Obligation related to export of natural resources</b>	<ul style="list-style-type: none"> <li>• As regulated by BI Regulation No.21/14/PBI/2019, foreign currency earned from the export of natural resources such as mining, agriculture, forestry and fisheries has to be deposited in the domestic foreign exchange bank export account by the end of the third month following the month of PEB registration</li> </ul>

## III-4. Foreign Exchange Controls (2): Non-Trade & Capital Transactions

### Non-Trade & Capital Transactions

Non-Trade Transactions	<p><b>Prohibition / regulation of specific rupiah transactions and foreign currency credit transactions with foreigners and foreign corporations</b></p>	<ul style="list-style-type: none"> <li>This applies to foreign nationals and corporations outside of Indonesia and representative offices in Indonesia.</li> <li>Prohibited transactions include rupiah-denominated or foreign currency-denominated loans (excluding syndicated loans, credit cards, consumer loans, etc.), purchase of rupiah-denominated securities issued by foreign corporations, rupiah-denominated billing between head offices and branches, and rupiah-denominated capital payments, etc.</li> <li>With the exception of certain transactions, such as sending rupiah-denominated salaries to accounts opened by foreigners at domestic banks, it is necessary to submit documentation explaining the type of economic activity.</li> </ul>
	<p><b>Regulations for foreign currency purchased using rupiah</b></p>	<ul style="list-style-type: none"> <li>It is prohibited for banks to remit rupiah to a non-foreign side (Indonesian individuals or corporations, etc.) abroad.</li> <li>Foreign currency derivative transactions with foreigners, etc., involving rupiah are limited to a face-value maximum of US\$1 million or the equivalent amount for each individual transaction and for each outstanding position of each derivative transaction of each bank.</li> </ul>
	<p><b>Regulations on carrying in/carrying out rupiah in cash</b></p>	<ul style="list-style-type: none"> <li>When foreign currency is purchased at a domestic bank with rupiah by an individual, a corporation other than a bank, or a foreign individual, a foreign corporation, or an overseas branch, if the foreign currency purchase exceeds US\$25,000 per customer in a month, documentation must be submitted certifying that the foreign currency purchase is necessary.</li> <li>Foreign currency purchases with rupiah are limited to non-speculative transactions.</li> <li>In particular, foreign currency purchases with rupiah exceeding US\$25,000 per customer per month are limited to the following transactions. <ul style="list-style-type: none"> <li>a. For Indonesian citizens: Goods and services importation activities; payment of services such as payment of medical expenses abroad and consultant fees abroad as well as payment for services related to the employment of foreigners in Indonesia; repayment of foreign currency-denominated debt, payment for purchase of assets abroad; non-bank foreign currency trading business activities, travel agent business activities, and foreign currency-denominated deposits</li> <li>b. In the case of foreigners: Documented proof is required regarding the necessity of the foreign currency purchase to purchase foreign currency in excess of US\$25,000 or the equivalent per customer per month for the withdrawal of rupiah-denominated assets and investments, receipt of repayment from debtors, and actual exchange of income, etc., from investments such as capital gains, coupons, interest, and dividends, etc.</li> </ul> </li> </ul>
Capital Transactions	<ol style="list-style-type: none"> <li>Investors can freely remit funds domestically and internationally through foreign currency accounts (since November 1, 2016, evidence must be provided to the central bank (Bank Indonesia:BI) to remit more than US\$100,000 abroad)</li> <li>For foreign currencies approved by the Investment Coordinating Board (BKPM), there is a specified conversion rate for recording shares paid-in foreign currency in a rupiah-denominated capital account.</li> <li>Permission is required to remit the principal of foreign investments to the home country during the period when receiving tax incentives.</li> <li>When borrowing from abroad, such as from the parent company in the home country, etc., a report on the borrowing abroad must be submitted to BI.</li> </ol>	

## III-4. Foreign Exchange Controls (3): Main Regulations

- Since 2011, Indonesia's central bank has tightened controls on foreign currency transactions, including reporting on foreign debt, currency hedging obligations, and the obligation to use rupiah.

### Main Central Bank Regulations

	Content	Details
External debt regulations	The Reporting of the Application of the Prudential Principle in the Management of Non-Bank Entities' Foreign Debts(16/22/PBI/2014)	<ul style="list-style-type: none"> <li>• <u>Borrowings from abroad must be reported to Bank Indonesia.</u></li> <li>• <u>For borrowings from abroad, it is necessary to report all borrowings, both long-term over 1 year and short-term of 1 year or less.</u> <ul style="list-style-type: none"> <li>✓ Report the borrowing plan by March 15 every year</li> <li>✓ Report financial data of the borrowing company by June 15 and December 15 every year</li> </ul> </li> </ul>
	Foreign Exchange Risk Hedging for Foreign Currency-denominated External Debt (16/21/PBI/2014)	<ul style="list-style-type: none"> <li>• <u>Private companies with foreign currency-denominated external debt (parent-subsidiary loans, etc.) need to meet certain currency hedging ratios, liquidity ratios, and external rating acquisitions.</u></li> </ul>
Currency regulations	Mandatory Use of Rupiah (17/3/PBI/2015)	<ul style="list-style-type: none"> <li>• <u>Law No. 7 of 2011 on Currency requires the use of rupiah for payment transactions in Indonesia, monetary debt fulfillment, and other monetary transactions including remittances to banks.</u></li> <li>• Businesses are required to display prices in rupiah. Payment is required in rupiah for cash transactions that use banknotes or coins as the payment method as well as for non-cash transactions that use mechanisms or methods to pay without cash, including checks, credit cards, debit cards, ATM cards, electronic money, etc.</li> </ul>

Note: Foreign currency control in Indonesia is regulated and revised by notifications from institutions, detailed enforcement regulations, presidential decrees, etc., and the above is not guaranteed to be the latest information. Please check other sources for the latest regulations.

## III-5. Financing scheme

- There are three main means of financing in Indonesia: (1) capital increase, (2) parent-subsidary loan, and (3) local borrowing (from a financial institution).
- All are feasible, but be aware that foreign currency-denominated debt from abroad is subject to regulation.

	(1) Capital Increase	(2) Parent-Subsidiary Loan	(3) Local Borrowing (financial institution)
<b>Main fund use</b>	<ul style="list-style-type: none"> <li>• No special restrictions on use of funds</li> </ul>	<ul style="list-style-type: none"> <li>• No special restrictions on use of funds</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinary working capital / equipment funds</li> </ul>
<b>Currency utilized</b>	<ul style="list-style-type: none"> <li>• Limited to IDR/USD</li> </ul>	<ul style="list-style-type: none"> <li>• Any currency can be used</li> <li>• However, if a loan is from overseas and denominated in foreign currency, please be aware of foreign debt regulations (see p. 30 for details).</li> </ul>	<ul style="list-style-type: none"> <li>• IDR / USD / JPY, etc.</li> </ul>
<b>Standard amount</b>	<ul style="list-style-type: none"> <li>• No special restrictions</li> </ul>	<ul style="list-style-type: none"> <li>• No special restrictions</li> <li>• Note the debt-to-capital ratio regulation (expenses related to debt which is more than 4 times capital are not deductible)</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinary working capital = trade receivables + (raw materials + work in process + inventory) - trade payables (basic formula)</li> <li>• Equipment funds = Range of costs required to introduce real estate and machinery/equipment</li> </ul>
<b>Interest rate</b>	—	<ul style="list-style-type: none"> <li>• Same level as the prevailing market rate (to maintain fair transaction conditions in accordance with transfer pricing taxation)</li> </ul>	<ul style="list-style-type: none"> <li>• Base rate (financial institution procurement cost: Cost of Funds, etc.) + Spread (interest payment cycle is linked to base rate)</li> </ul>
<b>Period</b>	—	<ul style="list-style-type: none"> <li>• Can be set for any period</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinary working capital: In principle, short term (1 year or less)</li> <li>• Equipment funds: Depends on the business plan (about 3 to 5 years)</li> </ul>
<b>Repayment conditions</b>	For dividend regulations, see p. 27	<ul style="list-style-type: none"> <li>• No special restrictions</li> <li>• It is common to set a deadline for a lump-sum repayment without setting conditions for regularly scheduled payments</li> </ul>	<ul style="list-style-type: none"> <li>• Corresponds to the use of funds and the financial plan</li> <li>• Depending on interest rate terms and conditions, costs may be incurred upon early repayment</li> </ul>
<b>Procedure required for implementation</b>	<ul style="list-style-type: none"> <li>• Resolution of capital increase at General Meeting Of Shareholders, notarization of minutes regarding capital increase</li> <li>• Amendment of Articles Of Incorporation / Acquisition of certification at the Ministry of Law and Human Rights</li> <li>• Receipt of increased capital amount and proof of payment</li> <li>• Application for capital increase / obtaining of permission from the Investment Coordinating Board (BKPM) through Online Single Submission (OSS)</li> </ul>	<ul style="list-style-type: none"> <li>• Conclusion of loan agreement with parent company</li> <li>• It is necessary to consider foreign exchange hedging on the sides of the parent company (rupiah-denominated) or the Indonesian subsidiary (hedges other than rupiah-denominated).</li> </ul>	<ul style="list-style-type: none"> <li>• Routine screening by the financial institution</li> <li>• Adjustment regarding guarantee deposit from the parent company (if necessary)</li> </ul>

Note: 1. The general theory for accounting and taxation is described. Please check with your accounting office or tax accountant for accounting and tax procedures at your company.  
 2. Foreign currency control in Indonesia is regulated and revised by notifications from institutions, detailed enforcement regulations, presidential decrees, etc., and the above is not guaranteed to be the latest information. Please check other sources for the latest regulations.

## III-6. Recent Topics: Omnibus Law (1)

- In November 2020, the Indonesian President officially implemented the job creation law - commonly known as the "Omnibus Law". It aims to consolidate previously overlapping laws and regulations, create new jobs, and promote foreign investment.
- The new law is expected to give some consideration to foreign investors by lowering the corporate income tax rate, easing conditions for labor employment contracts, changing the minimum wage calculation method, and relaxing requirements for establishment of small and medium enterprises (SMEs).
- Meanwhile, in November 2021, the Constitutional Court of Indonesia ruled that the law is unconstitutional and must be amended within the next two years. After the ruling, the government emphasized that there was an issue with the enactment process, not with the content itself, and that the impact on future investment and the economy would be negligible.

### Main Impacts on Foreign Companies of the Omnibus Law

	Topic	Former Laws and Regulations	Omnibus Law	Notes
1	<b>Corporate income tax</b>	25% as a rule	22% through FY2022; 20% in FY2023 and thereafter. Listed companies receive an additional 3% reduction for five years after initial listing.	Reduced to 22% ahead of schedule in March 2020 as a measure against coronavirus.
2	<b>Dividend income tax</b>	-Domestic: Dividends to corporate shareholders of 25% or more are tax exempt; other dividends are taxed at the regular rate. -Overseas: Regular tax rate	-Domestic/overseas: Tax exempt when reinvesting in Indonesia	Promotes investment of dividends in domestic bonds Stimulates attraction of foreign investment
3	<b>Hiring of foreigners</b>	All employers who hire foreign workers must have written permission from the Minister or a designated government official (does not apply to diplomatic or consular officials).	Eases requirements by providing exceptions for emergency machine maintenance work, start-up companies, and fixed-term research work	Promotes technology transfer from foreign countries Stimulates attraction of foreign investment
4	<b>Percentage increase in minimum wage</b>	Inflation rate + GDP growth rate	GDP growth rate in each province	<ul style="list-style-type: none"> <li>• Reduces labor cost increases</li> <li>• Keeps wages in line with the economic reality of each province and shifts investment to local regions</li> </ul>
5	<b>Fostering of small and medium enterprises</b>	N/A	Foreign capital can be invested in small and medium enterprises under certain conditions	<ul style="list-style-type: none"> <li>• Improves competitiveness of SMEs and technology transfer from overseas</li> <li>• Stimulates attraction of foreign investment</li> </ul>



## III-6. Recent Topics: Omnibus Law (2)

- In February 2021, Presidential Regulation No 10 of 2021 concerning Investment Business Activities was announced, dividing the business sectors open for investment into four major categories.
- The previous Negative List stipulated 350 sectors, and the revision was more extensive than originally envisioned, leaving only 46 sectors on the revised Negative List.

### Business Sectors Where the Omnibus Law Opens Up Investment

	Business Sectors	Summary	Number of industries covered	
			Old regulation	New regulation
A	Priority business sectors	a. National strategic programs/projects b. Capital intensive c. Labor intensive d. High tech e. Pioneer industries f. Export oriented g. R&D and innovation oriented	—	245
B	Business sectors reserved for micro, small, and medium enterprises and cooperatives, or where partnerships are a necessary condition	a. Business sectors allocated to cooperatives and SMEs	95	51
		b. Business sectors open to large companies that collaborate with cooperatives or SMEs	50	38
C	Business sectors with specific requirements	a. Facility investment demand of domestic investors b. Capital investment requirements limited to foreign capital c. Capital investment requirements needing special permission	380	46
D	Business sectors that do not fall under A, B, or C	—	—	—

## III-7. Recent Topics: Capital City Relocation(1)

- The capital relocation plan was proposed to correct disparities due to the concentration in Jakarta and Java, to improve traffic congestion and air pollution in the Jakarta metropolitan area, and to prevent flooding and land subsidence.
- The cost of relocating the capital is estimated at US\$ 33 billion, and while the central government has announced its intention to contribute a portion, the rest will be funded by public-private partnerships (PPP) and private funds. Whether the large amount of funding can be raised is an issue.
- In January 2022, a bill was passed concerning the proposed site, functions, and name (Nusantara) of the new capital, and the relocation plan is expected to proceed.
- However, since it is a very long-term project that will take more than 25 years to complete, the relocation plan may be subject to alteration due to changes in the administration or economic conditions in the future.








## III-7. Recent Topics: Capital City Relocation(2)


- Of the total US\$ 33 billion planned capital relocation investment, 19.2% will come from the national budget, 54.4% from public-private partnerships (PPP) and the remaining 26.4% from private sector investment
- The government's priority investment areas by 2024 are as below

### The Government Core (KIPP)




#### Basic Infrastructure

-  Provision of safe drinking water
-  Liquid waste management
-  Solid waste management
-  Provision of raw water supply
-  Housing

#### Energy Development

-  Solar power plant development
-  Floating Photovoltaic on Semoi Sepaku Dam

#### Transportation

-  BRT system
-  Intelligent Transport System & Transit System
-  Urban freight transport



### Regional Infrastructure

#### Transportation




-  Access Toll road
-  Airport Express Line
-  Kariangau and Semayang Ports Development
-  New Capital City Airport development

### Industry and Economic Cluster




#### Smart City and Digital Hub

-  Industry 4.0 for existing industry
-  Smart City technology



#### Education in the 21<sup>st</sup> Century

-  Vocational High School
-  STEM Institute
-  Compulsory education





#### Sustainable Agriculture

-  Plant-based protein
-  Plant extraction
-  Herbal products and nutrition



#### Integrated pharmaceutical

-  Active pharmaceutical ingredient
-  Biosimilar



#### Inclusive ecotourism & Wellness

-  Ecotourism & wellness tourism
-  Nature and wildlife tourism
-  Urban tourism/multi-purposes hotels
-  Medical tourism



#### Advanced Chemical Industry

-  Petrochemicals
-  Oleochemicals

#### Next-gen Renewable Energy

-  TV cell assembly
-  2-W electric vehicle assembly

#### Low-carbon energy

-  Biofuels
-  Electrification, Digitalization, and mining rehabilitation

IV. Other

## IV-1. Mizuho Bank Group's Offices in Indonesia

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### ◆ PT Bank Mizuho Indonesia

<b>Location</b>	Menara Astra, 53 <sup>rd</sup> Floor, Jl. Jend Sudirman Kav 5-6 Jakarta 10220
<b>Telephone Number</b>	+62-21-5091-0888
<b>Days of Operation</b>	Monday - Friday

### ◆ PT MHCT Consulting Indonesia

<b>Location</b>	Menara Astra 23 <sup>rd</sup> Floor, Jl. Jenderal Sudirman Kav 5-6 Jakarta 10220
<b>Telephone Number</b>	Telephone: +62-21-5085-1880, FAX: +62-21-5085-1884
<b>Main Operations</b>	Consulting and Advisory Services

## IV-2. Business Cooperation (1): Bank Negara Indonesia

- Mizuho Bank signed a Memorandum of Understanding (MOU) with Bank Negara Indonesia (BNI) in February 2013 regarding a business alliance.
- The MOU enables collaboration in a wide range of areas, including the use of BNI's nationwide network by Mizuho Bank, introduction/matching of business partners, and use of retail banking.

### Outline of Bank Negara Indonesia (BNI)

- Bank Negara Indonesia (BNI) is the fourth largest national bank by assets
- First state-owned bank to go public in 1996
- Domestic branch network of approximately 1,500 locations and approximately 19,000 ATMs
- Characterized by its customer base of local blue-chip companies, mainly state-owned enterprises
- The only Indonesian state-owned bank with an office in Tokyo
- BNI Sekuritas, a securities business, partnered with Japanese-owned SBI Securities and sold a portion of its shares to the company in 2011
- Announced entry into digital banking by acquiring Bank Mayora, a mid-sized local bank, in February 2022

### Support from Mizuho Bank

#### (1) Collaboration on liquidity

- ⇒ Mutual accommodation of Mizuho's dollars and BNI's rupiah

#### (2) Collaboration in cash management services

- ⇒ Provision of cash management services utilizing BNI's extensive network

#### (3) Collaboration in retail business geared toward Japanese customers

- ⇒ Provision of retail banking services such as payroll accounts, credit cards, etc.

#### (4) Collaboration in cross-border M&A/business matching

- ⇒ Matching of the investment needs of Mizuho clients with the investment needs of BNI clients

#### (5) Support of BNI customers with information provision

- ⇒ BNI can provide information to its clients by utilizing Mizuho's global network

## IV-2. Business Cooperation (2): Ministry of Investment / BKPM

- In August 2006, Mizuho Bank signed a Memorandum of Understanding (MOU) with the Ministry of Investment/BKPM regarding mutual cooperation to promote investment by Japanese companies.
- There are many past records of collaboration, such as co-sponsoring of investment seminars. Investment support in Japan is also possible through collaboration with the BKPM Japan office.

### Overview of BKPM

- **Official Name:** Kementerian Investasi /  
Badan Koordinasi Penanaman Modal
- **English Name:** Ministry of Investment/  
Investment Coordinating Board
- **Business Content:** Issuance of licenses for foreign-funded and domestic-funded investment projects, and coordination with related ministries and agencies (excluding oil, gas and finance)
- **Location:** Jl. Gatot Subroto 44. Jakarta, Indonesia
- **Japan Office:** Fukoku Seimei Bldg.,  
2-2-2 Uchisaiwaicho,  
Chiyoda-ku, Tokyo

### Mizuho's Support

- Introduction of Japanese advisors (resident in Jakarta), arrangement of interviews
- Introduction of BKPM office staff, arrangement of interviews
- Confirmation of general inquiries
- Explanation of the general work flow up to the establishment of companies
- Introduction of consulting companies and various specialized businesses (law, tax, accounting, labor, etc.)

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