

Exploring market opportunities



International Business Indonesia

Challenges and opportunities 2010/2011



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verden til å koble forskning og næringsliv.

Universitetsranking fra Leiden-universitetet, 2010



NTNU

Det skapende universitet

INTERNATIONAL BUSINESS - a unique student project

International Business (IB) is an annual non-profit project carried out by a group of twelve students attending the Norwegian University of Science and Technology (NTNU), the Norwegian School of Economics and Business Administration (NHH) and the Norwegian School of Management (BI), in collaboration with Innovation Norway.

The main purpose of the project is to explore potential markets for international business ventures and support Norwegian companies considering entering these markets. Since the conception in 1984, IB has visited all continents, each year selecting a new country. In 2010-2011, IB's focus has been exploring the market opportunities for Norwegian companies in Indonesia. Developments and trends beyond our borders are determinant for a small country like Norway. Globalization and increased business complexity increases the importance of such elements, and pull foreign markets and the opportunities they offer closer to us. To take advantages of these opportunities and understanding the development, information and knowledge is vital.

IB Indonesia's primary goal is to provide information and insights into areas that are important for Norwegian companies considering establishing in Indonesia. The information and conclusions of the report are based on IB's field research in Indonesia during January 2011 and extensive research conducted from Norway. The research in Indonesia included meetings with Norwegian and foreign companies established in the country, as well as institutions and Governmental bodies. During the stay, IB received extensive support from Indonesia Norway Business Council (INBC) and the Norwegian Embassy in Jakarta, Indonesia.



EXECUTIVE SUMMARY

The purpose of International Business report 2011 Indonesia is to explore the Indonesian market and help encourage investment. The report will provide potential investors an overview of the Indonesian economy and society, detailed insight on opportunities and challenges in the Indonesian market and some practical information about working in Indonesia and Jakarta. Through our trip and field studies in Jakarta, we have gathered information on all of the topics presented in the report. We have interviewed a handful of international companies, mainly focusing on Norwegian and Indonesian businesses.

As a result of our research we identified 8 sectors with great opportunities for foreign investments, three main challenges one will face in Indonesia and what are important to consider when moving employees to Jakarta and Indonesia. Oil, gas, energy, and shipping are sectors with tremendous potential that are especially relevant to Norwegian companies and investors. Deep-water oil fields, geothermal energy and LNG gas are particularly attractive investment fields. Other prosperous sectors are power generation equipment, non electronic machinery, consumer goods, pharmaceutical products and telecommunication.

The challenges we found most important were corruption, infrastructure and the legal system. All these are critical to doing business. Indonesia seems to be slowly improving on all these issues, however infrastructure is at a critical point, and needs a boost not to put a cap on investment opportunities. Anti-Corruption efforts in Indonesia are rapidly increasing in range and intensity with the free-spoken media in the lead.

Our conclusion is clear. With Indonesia's enormous natural resources, cheap labour and growing middle class the potential is exceptional. Despite of the challenges the country is something every investor should consider. The challenges can be handled and the opportunities are too big to neglect. Indonesia is definitely a country we would recommend for your future investments.

Our report has limitations. We have only been in Indonesia for a limited period of time. Our studies have taken place in Norway before the field studies and during three weeks in Indonesia. The main part of our research has taken place in the Jakarta area. Due to this, our report might not reflect all regions of the country accurately enough. However, the main economic activity is based in and around Jakarta so this small area of the country will probably reflect the larger part of Indonesian business.

Another limitation with our research is that we visited a limited number of companies. This may cause the report to be too one-sided. We have tried to balance our visits with two Indonesian companies, three Norwegian companies, the royal Norwegian embassy, the Indonesian Chamber of Commerce and Industry and the European Chamber of Commerce. We have also talked to locals and expatriates in more informal settings and to our best ability tried to understand the Indonesian history, culture and way of thinking.

ACKNOWLEDGEMENTS

01 February 2011

In April 2010 the Indonesia Norway Business Council was advised that the Norwegian International Business Project for 2011 would be Indonesia and that a group of tertiary students from three Norwegian universities would be visiting Jakarta and other parts of Indonesia. It was explained to INBC that this project is an annual exercise in co-operation with Innovation Norway. The student group then planned to raise sufficient funds to visit Indonesia in January 2011.

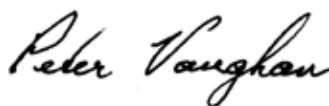
The INBC Board welcomed this initiative because of the business related topic chosen - international marketing opportunities for Norwegian companies seeking to do business in Indonesia – and the non-profit nature of this International Business Project. The INBC Secretariat was instructed to assist the students with their planning and to advise INBC Members and the Royal Norwegian Embassy of their intended visit.

Upon the group's arrival in Jakarta a very successful Networking Evening was held on 12th January 2011 to introduce the students to Norwegian businesses. Then followed a series of company visits, plus interviews and briefings from the European Business Chamber of Commerce and the Indonesian Chamber of Commerce and Industry. The students then set about compiling their report for presentation to Innovation Norway and ultimately the Bergen Chamber of Commerce and Industry.

INBC applauds this business project and is proud to be associated with these competent and conscientious young Norwegians, seeking to improve their academic qualifications and experiences.

Both INBC Corporate and Private Members have warmly welcomed the group to their respective business premises and Private Members have provided evening hospitality. Members have also generously sponsored some of the Indonesian transport costs incurred by the students. All of this has generated a great rapport between the student group and INBC. It is indeed my pleasure, on behalf of INBC, to congratulate these students on their diligent research, their professional conduct whilst in Indonesia, and their zealous collaborative report preparation.

This final report is not merely highly recommended. It is imperative reading for any Norwegian business seeking to enter the Indonesian market.



(Peter Vaughan)
Executive Director
INBC Secretariat
Jakarta



ACKNOWLEDGEMENTS

Since 1984, International Business has encouraged Norwegian companies to look abroad for new market opportunities. Their experience has revealed that the project's sources open up more to students than to professional consultants, and that students with a youthful curiosity are more likely to question established industry assumptions.

We are very pleased to note that International Business will be focusing on Indonesia in this year's project. Indonesia is making a very strong comeback after the financial crisis that shook the country to its core and caused many foreign investors to leave the country.

Today, Indonesia is maybe the most promising of all emerging markets. It has a huge potential: a large domestic market, a growing middle class, strong GDP growth, cheap labour and abundant natural resources. Together with political stability it offers an attractive potential for foreign companies. But in spite of strengths and great potential in the Indonesian economy, doing business in Indonesia is not simple.

“We are confident that the project will contribute with valuable information about how to do business in the Indonesian market to Norwegian exporters and investors.”

International Business is also a great opportunity for ambitious top students to get work-related international experience, in combination with honing skills like leadership, cooperation and time management. We are therefore proud of the fact that International Business' final report displays the Innovation Norway-brand.

Gunn Ovesen
CEO Innovation Norway



ACKNOWLEDGEMENTS

Indonesia and Norway enjoy good bilateral relations, and Indonesia is an increasingly important market for Norwegian companies.

During the last ten years Indonesia has shown an impressive annual economic growth of about 5 percent, and Norwegian exports to Indonesia increased by 300 percent during the same period. Total trade in goods between our countries has doubled in the last ten years, and the value of total trade reached 1,6 billion NOK in 2010.

There is a great potential for this figure to increase, and I am pleased that Norway has started negotiations on a free trade agreement with Indonesia through EFTA (The European Free Trade Association). The first round of negotiations took place in Jakarta as recently as February 2011.

About 20 Norwegian companies are established in Indonesia today, and membership in the Indonesia Norway Business Council is increasing. Norwegian companies have expertise in many areas that are relevant for Indonesia and there are common business opportunities in sectors such as oil and gas, maritime, hydropower, aquaculture and environmental technology.

Indonesia is the 18th biggest economy in the world today and some predict it to be the 7th largest in 2050. Many have argued that the acronym BRIC should be changed to BRIIC to also include Indonesia. With a population of 240 million people the importance of this market for Norway will increase in the years to come.

It is important that students spend time abroad during their studies in order to gain knowledge of countries of interest to Norwegian companies. Projects like International Business could be useful both for the companies already present in the market and companies that consider entering the market. I am therefore pleased to acknowledge the work done by students from NHH, BI and NTNU in writing this report.

Trond Giske
Minister of Trade and Industry





Place where weddings are carried out, Sumatra
Photo by Daniel Bernstein

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(Photo: Tony Hall)



BI Norwegian School of Management is an internationally recognized and accredited, private institution located in Oslo, the capital of Norway. BI has one of Europe's largest and most productive academic environments in the area of business economics and administration, marketing, finance and general management.

Bachelor of Business Administration

This three-year, full-time programme is taught entirely in English and has an international focus and student body. The BBA programme will give you a taste of what globalisation and internationalisation are all about: a taste with a Scandinavian flavour, which will prepare you thoroughly for a career in international business or further postgraduate studies.

Bachelor of Shipping Management

This three-year, full-time programme is taught entirely in English and will give you a taste of an exciting and globalised industry: the Shipping Industry. Norway is one of the leading shipping nations in the world and BI has along tradition of teaching and doing research in the Shipping area.

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BI offers 7 different two-year, full-time programmes that provide professional skills to meet the increasing needs of businesses. BI's MSc programmes provide a stimulating and multi-cultural learning environment with an international outlook.

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- MSc in Financial Economics
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- MSc in Political Economy
- MSc in Leadership and Organisational Psychology
- MSc in International Management

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BI offers four part-time Executive MBA programmes in collaboration with international institutions and partners.

- Executive MBA - Shipping, Offshore & Finance
- Executive MBA in Energy
- Executive MBA
- Executive Master in Energy Management

Doctoral Programme

BI offers a full-time doctoral programme leading to the title PhD. The programme's objective is to develop and educate high-potential individuals to serve the society in academic, business and other working life communities through research, publication, consulting and other professional services within their field of expert knowledge.

Summer Programme

The theme of the 2011 Summer Programme will be Intercultural Management - a Scandinavian perspective. The four-week programme will run from June 25 – July 22, 2011 and will also offer students the opportunity to study in Denmark through a new cooperation with Aarhus School of Business.

For more information about our programmes please visit our website at www.bi.edu

PART 1: INTRODUCTION TO INDONESIA



Different types of graves on Sumatra. Photo by Janam Vettivel

OVERVIEW OF INDONESIA

INTRODUCTION

Indonesia, the world's fourth most populous nation, became independent in 1949. The region was formerly under control of the Dutch and Japanese. The country consists of more than 17.000 islands and is by far the largest and most varied archipelago on earth. The biggest islands are Java, Sumatra, Kalimantan, New Guinea and Sulawesi. Indonesia is located in an area where three tectonic plates meet, and it is therefore a large number of active volcanoes, earthquakes and tsunamis that can occur. Wooded mountains characterize the islands, but extensive lowland areas are also found on some of the islands. The country has a tropical climate, with humidity between 70-95 percent. There are slight variations in temperature, and the average is 27-28 degrees in the lowlands, while it is slightly cooler in the mountains. Indonesia is the world's largest producer of palm oil, other important industries are oil and energy, textiles, footwear, mining, cement, forestry, rubber, food and tourism.

KEY STATISTICS

INDONESIA	
Capital	Jakarta
Areal	Land: 1.826.440 sq km
	Water: 93.000 sq km
	Total: 1.919.440 sq km
Establishment	1945
POLITICS	
Government	Republic
President	Susilo Bambang Yudhoyono
SOCIETY	
Population	242.968.342 (Jakarta City 9,2 mill)
Official languages	Bahasa Indonesia, English, Dutch, and Javanese
Ethnic groups	Javanese, Sundanese, Indonesian (Malay), Madura
Religions	Islam (87%), Protestant, Hinduism, Catholic and Buddhism
ECONOMY	
GDP (nominal)	695 billion USD
GDP (nominal) per capita	2963 USD
GDP growth	6.0 %
GDP per sector	Industry (47.1%), Services (38.5%) and Agriculture (14.4%)
Currency	Indonesian Rupiah (IDR)

Table 1: Key statistics

NORWAY AND INDONESIA

Trade between Norway and Indonesia.

Indonesia is today the 30th largest exporter and the 31st largest importer of merchandise in the world as of 2009. Even though the import from Indonesia to Norway was only 772 mill. NOK (2009) and the export to Indonesia from Norway was 393 mill. NOK (2009) the Indonesian authorities are seeking increased trade and investments from Norway. The major import articles are furniture, clothing, accessories, shoes and telecommunication equipment, while Norway is exporting fertilizers, industrial machines and fish to Indonesia. Norway also has a great deal of knowledge within several of the sectors that are high on Indonesia's list of priorities (oil/gas, hydroelectricity, maritime, aquaculture, environment and communications). Norway is involved with avoiding deforestation of Indonesia's rainforest that is the third largest in the world. A lot of the Norwegian trade also goes through Singapore offices and is therefore not a part of the export, import statistics.

Norwegian companies in Indonesia

As of 2010, there are approximately 20 Norwegian companies in Indonesia, but the real number is much higher as many Norwegian companies that are doing business in Indonesia are working out of Singapore. The Norwegian companies established in Indonesia are mainly big companies; this is due to high costs of starting a business in Indonesia. We will elaborate on this subject later in the report. Some of the most successful Norwegian companies in Indonesia are Statoil, Jotun and DNV. During our interviews with these and other companies, trade associations and governmental institutions, both from Norwegian and Indonesia, we identified opportunities and challenges of doing business in Indonesia.

Import and export, after import/export and time. Value (kr),Indonesia

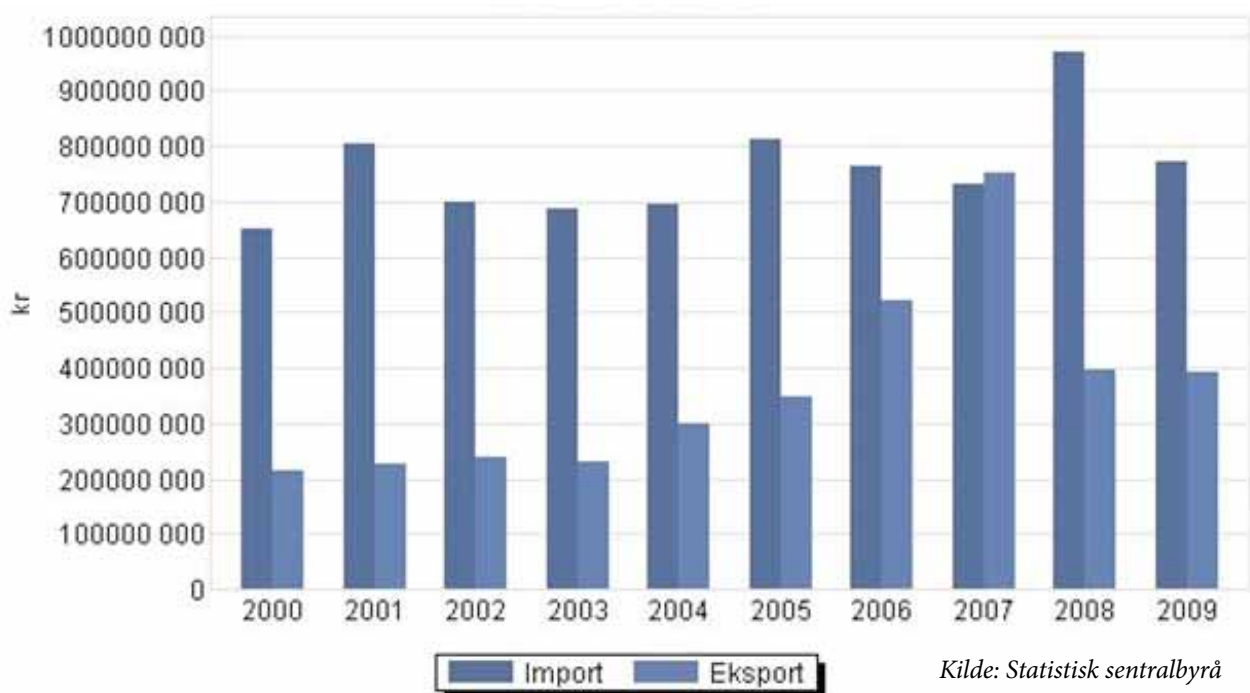


Figure 1: Import and export

OVERVIEW OF THE INDONESIAN ECONOMY

This part will present an overview of Indonesian economy, the main industries and Indonesia's initiatives related to trade and global relations.

In recent decades, Indonesia has been viewed as one of Southeast Asia's most successful highly performing and newly industrializing economies. It is the largest economy in Southeast Asia and a member of the G-20 major economies. It features a developing market economy, with strong influence from the government. The government plays a significant role by owning more than 164 enterprises. The government administers the prices of many basic products, such as rice, electricity and fuel.

Domestic consumption is one of the major driving forces behind the country's economic growth. Although Indonesia's economy grew surprisingly fast during the 1980s and 1990s, it experienced considerable trouble after the Asian financial crisis of 1997, which led to significant political reforms. Today Indonesia's economy has recovered and continues to have a steady growth. With a large internal market, cheap labor, a growing middle class, political stability and steady economic growth, the country now stands as a reformed democracy with enormous economic potential. Foreign investment has increased rapidly in recent years and interest from international business is growing.

Current economic situation

The global financial crisis in 2008- 2009 had a relatively small impact on Indonesia because of its heavy reliance on domestic consumption as the driver of economic growth. Although the economy slowed significantly from the 6 percent growth rate recorded in 2007 and 2008, they managed to withhold a 4 percent growth rate in 2009.

Indonesia outperformed its regional neighbors and joined China and India as the only G-20 members posting growth during the crisis. The government used fiscal stimulus measures and monetary policy to counter effects of the crisis and offered cash transfers to poor families. In addition, campaign spending in advance of legislative and presidential elections in April and July helped buy consumption. The government made economic advances under the first administration of President Yudohoyono, introducing significant reforms in the financial sector, including tax and custom reforms, the use of treasury bills, and capital market development and supervision. Indonesia's debt- to- GDP ratio in recent years has declined steadily because of increasingly robust GDP growth and sound fiscal stewardship.

Indonesia is working toward expanding the coverage of their safety net as a mean to fight poverty. The workers will be better protected against the financial consequence from loss of employment by introducing various forms of unemployment insurance. Generous severance payments will be reduced and the minimum wage linked to the development gains in productivity increases. A comprehensive cost of all existing and new social protection programs, including public health insurance, is vital to ensure their long-term fiscal sustainability. If budget conditions permitting, additional public expenditures can be allocated to make the transition from primary to secondary education easier, and improve the quality of teaching.

Indonesia has a large economy that many analysts predict will grow further in the future. Specifically, they believe the country's democratic political system and natural domestic market will encourage stable economic expansion

The Gross Domestic Product size and growth

The Gross Domestic Product (GDP) has risen in recent years, but at the same time, the differences between rich and poor has increased as well. The main growth has been concentrated in the island of Java and the capital Jakarta.

In 2009, the Indonesian economy was the 15th largest in the world by purchasing power parity (PPP), with gross domestic product estimated to be 854.98 billion USD and a growth rate around 6 percent.

CATEGORY	VALUE	YEAR
GDP ranking (world)	15	2008 ^{2,4}
GDP (PPP)	855 billion USD	2009 ³
GDP PPP per capita	4.380 USD	2010 ²
GDP growth	6.0 %	2010 ¹
GDP (nominal)	695 billion USD	2010 ²
GDP nominal per capita	2963 USD	2010 ²
Inflation	6.96%	Dec 2010 ⁵
Labor force	112 million	2008 ⁴
Unemployment	7.9 %	2009 ¹
Average salary per month in manufacturing sector	1.2-1.3 mill Ru-piah	2010
Population below poverty line	32 million	2010 ³

1. The Norwegian Ministry of Foreign Affairs
2. IMF- International Monetary Fund
3. World Bank, World Development Indicators
4. CIA World Factbook
5. Trading economics

Table 2: Economic indicators



Bergen Næringsråd

Bergen Chamber of Commerce and Industry

BUSINESS AREAS

Main economic sectors

Indonesia today has a well-diversified economy. Every sector of the Indonesian economy plays an important role. The country has a strong agricultural potential, and therefore agriculture has historically been the dominant activity, both in terms of employment and output. The mining sector has also made important contributions as the nation has a vast range of mineral resources. The industrial sector has expanded rapidly and has been given a particular emphasis by the government as a way of diversifying the economy and improving the ability of the country to compete in terms of trade.

Oil and gas

The Indonesian oil and gas industry is one of the oldest in the world. Indonesia has been active in the oil and gas sector for more than 125 years after its first oil discovery in North Sumatra in 1885, and continues to be a significant player in the international oil and gas industry.

Indonesia is ranked 20th among world oil producers, accounting for approximately 1.2 percent of world oil production, and 7th in world gas production. The oil and gas market in Indonesia is assumed to become one of the most lucrative industries in Southeast Asia.

Indonesia was previously a member of OPEC, but withdrew in 2008 because it ceased to be a net exporter of oil. It could not fulfill the demand of its own country's needs, since growth in demand was bigger than the output. Indonesia's departure from OPEC does not affect the amount of oil it produces or imports.

Energy

Indonesia is South East Asia's biggest market with high growth and a growing middle class. The considerable buying power is causing a construction boom in both housing and retail, but also schools and hospitals which in turn fuels the growing demand for electrical installation supplies and contractors equipment. The growing demand for energy is expected to pass 19 percent in 2011. The Indonesian Government has pledged to increase the power generation, transmission and distribution throughout the country over the next five years and provide electricity for approximately 97 percent by 2020.

Shipping

Indonesia is heavily dependent on maritime transport for international as well as for domestic trade especially because of its archipelagic nature. Maritime shipping provides essential links between different parts of the country. The development of shipping and port services throughout the country has long been a priority of the Government of Indonesia. Indonesia's maritime sector has evolved from a very extensive public sector involvement and restrictive licensing and regulatory regime to a much more liberalized and decentralised.



Fred. Olsen & Co.

Textiles and footwear

The textile industry in Indonesia, like in many developing countries, has already a long-standing tradition and is among the pioneering sector in industrial manufacturing. The textile and apparel manufacturing industry ranks 14th in the world. The geographical distribution of the Indonesian textile industry is highly concentrated on the island of Java, and in particular West- Java.

Indonesia- made footwear has gained a significant interest in the international market, due mainly to its competitive prices, unique designs and durability. The country is one of the major footwear supply bases in Asia and among the top 10 exporters in the world. Shoes from Indonesia are known for their designs, competitive prices and wide range of materials used.

Shoes made in Indonesia are expected to get a bigger market share at home and abroad thanks to a decline in illegal shoe imports from China and an increase in demand for the commodity in Europe.

Agriculture

The agricultural sector is playing an important role in the country's economy, not just for the portion of GDP it produces, but also because it employs more than half of the total workforce. It is the country's main industry and roughly 60 percent of Indonesia's population relies on agriculture for their income.

Since the 1970s, the government invested heavily in agriculture and the manufacturing sector has grown quickly during the past 25 years. Indonesia exports agricultural products worldwide. Rapid growth in Indonesia's economy has been associated with a transformation of its food consumption pattern, which was mainly based on rice, starchy roots, fish and vegetables, to a wider variety including wheat and livestock products.

The consistent monsoon climate and almost even distribution of rainfall in Indonesia make it possible for the same types of crops to be grown throughout the country.

Palm Oil

Indonesia has grown to become the largest palm oil producer in the world producing more than 22 million tons. The palm oil industry has been growing rapidly and the world's dependency on Indonesia's crude palm oil is very high. Indonesia is the supplier of 90- 95 percent of the world's palm oil and it stands as one of Indonesia's economic pillars. The palm oil industry in Indonesia employs 3 million workers, contributing up to 4.5 percent of GDP and adding \$10.5 billion to the country's foreign reserves.

Rubber

Rubber is grown in Indonesia due to the hot and damping climate and its location near equator. Natural rubber has been and will remain an important export product for Indonesia. Indonesia is now the second largest country of natural rubber in the world after Thailand. Indonesia is a member of the Association of Natural Rubber Producing Countries (ANRPC) which is an inter-governmental organisation established in 1970. The 11 participating countries in this organisation accounted for about 94 percent of the global production of natural rubber during 2009.



*Rubber being sold at market, North Sumatra
Photo by Marie H. Johansen*

GLOBAL RELATIONS AND TRADE

Over the last decade, the Indonesian economy has become increasingly globalised. Indonesia is member of the trade organisations APEC, ASEAN, WTO and G-20, and their main export is focused on oil and gas

Export

The strategic sea-lane location of the Indonesian archipelago has traditionally been an important facilitator of domestic and international trade. Centuries ago, this functioned as a link in trade between ancient India and China. The main export commodities of Indonesia are oil and gas, electrical appliances, plywood and textiles and the major export countries are Japan, Singapore, USA and China.

Japan remains Indonesia's chief trading partner as well as the biggest foreign investor. In 2008, the two countries signed the Economic Partnership Agreement (EPA), which is the first bilateral free trade deal for Indonesia. The agreement eliminates import tariffs on more than 90 percent of goods traded between the two countries.

APEC

Indonesia has been a member of the Asia-Pacific Economic Cooperation since its establishment in 1989. APEC is the premier Asia-Pacific economic forum with 21 members. Their primary goal is to support sustainable economic growth and prosperity in the Asia-Pacific region. They are united in their drive to build a dynamic and harmonious Asia-Pacific community by advocate free and open trade and investment, promoting and accelerating regional economic integration, encouraging economic and technical cooperation, enhancing human security, and facilitating a favorable and sustainable business environment.

ASEAN

Indonesia has been a member of the Association of South-East Asian Nations (ASEAN) since its establishment in Bangkok in 1967 together with Malaysia, Philippines, Singapore and Thailand.

The aims and purposes of the ASEAN association are to contribute to economic growth, social progress and cultural development among its members, the protection of the peace and stability of the region, and to provide opportunities for member countries to discuss differences peacefully.

In 1992, the member countries established a trade bloc called AFTA (ASEAN Free Trade Area) with the main purpose of promoting trade among the ASEAN members. The organisation's goal is to get a free trade agreement with the largest countries in the region (China, Japan, India, Australia, New Zealand and South Korea) similar to the EU by 2015, in order to further integrate and promote business between member countries. This agreement (EC or AEC) will transform the ASEAN region into a single market, with free flow of goods, services, capital and skilled labor. Indonesia will be the chairman of ASEAN in 2011.

WTO

Indonesia has been a member of the World Trade Organisation (WTO) since January 1st 1995. WTO is the only global international organisation dealing with the rules of trade between nations. The goal is to help producers of goods and services, exporters, and importers conduct their business.

G-20

G-20 was established in 1999 and consists of finance ministers and central bankers from 19 of the world's largest economies, and the European Union. The countries of the G-20 account for nearly 85 percent of the global gross domestic product (GDP). G-20 is a forum for cooperation on the international financial market.

Indonesia handled the financial crises of 2007-2008 very well. At 4.6 percent, real GDP growth in 2009 was the third highest in the G-20, after China and India, and the economy could record more than 7 percent annual growth in the coming years. However, there is a common understanding that the Indonesian economy could even grow faster.

United Nations Partnership for Development (2011- 2015)

The overall goal of the Government of Indonesia is "Development for All". The implemented program and partnership in these five years will be crucial in helping Indonesia achieve the Millennium Development Goal and live up to the government's noble commitment. This plan is a development strategy based on equity, justice and diversity. It emphasizes the development of regional capacities within an integrated national economy and identifies 11 national propriety programs, which fully mainstream sustainable development, good governance and gender perspectives

In Indonesia, UNDP works to advance human development; fight poverty and inequality, consolidate democratic governance at both national and local levels, support crisis prevention and recovery, and promote environmentally smart development. UNDP is also fully engaged in the fight against HIV and AIDS and the promotion of gender equality.

In Indonesia, UNDP works in five priority areas:

- Poverty Reduction and the Millennium Development Goals
- Democratic Governance
- Environment and Sustainable Development
- Crisis Prevention and Recovery
- Aceh and North Sumatra Recovery

To maintain the economic growth and sustain its social and political stability, Indonesia needs to grow more resilient to internal and external shocks and threats such as climate change, natural disasters, conflicts and economic crisis.

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POPULATION AND CULTURE

Population

The population of Indonesia is currently around 243 million people and this makes it the fourth most populous state after China, India and the United States. There are big differences between rich and poor in the country, with an increasing trend where the middle class is moving towards the rich.

Java island is the world's most populous island and one of the most densely populated areas in the world, with more than 130 million living in an area the size of Greece. Most islands are multiethnic, with large and small groups forming geographical enclaves.

Poverty and employment

Indonesian law states that all children must attend school for nine years. However in practice, most children complete primary school, but only 70 percent attend secondary school.

Poverty in Indonesia is heavily concentrated among those with little or no formal education. Poverty reduction and unemployment are main priorities and a major program in basic education is being implemented to assist creation of a well- resourced education system. Employment continues to grow and lead to a lower unemployment rate in 2009, 7.9 percent. This also includes 14 percent of the population living below the national poverty line of \$ 1.55/ day, and almost half were "near poor", with consumption levels below \$ 2/day. The distribution of wealth in Indonesia is very uneven, with the poorest 10 percent sharing only 3 percent of the wealth, while the richest 10 percent sharing over 30 percent. The retirement age in Indonesia is in general 55 years or 20 consecutive years in the same company.

Culture

"Indonesia's people are extremely diverse in culture, language, ethnicity and religion."

Indonesian culture has been shaped by long interaction between original indigenous customs and multiple foreign influences. Its active history has encouraged the growth of many unique cultures. Indonesia is home to various styles of music, with those from the islands of Java, Sumatra and Bali being frequently recorded.

Western culture has had a big impact on Indonesia in modern entertainment such as television shows, film and music, as well as political system and issues. India has notably influenced Indonesian songs and movies.

Indonesians are generally friendly and polite and while they understand that western culture is different to their own, it will be appreciated if their customs are respected. Religious customs should also be respected; particularly during the month of Ramadan when eating, drinking and smoking during daylight hours should be discreet as it is forbidden by the Muslim culture.

Language

Since the independence in 1945, Indonesian has been the language of most written communication, education, government and business. Of its large population the number of people who fluently speak Bahasa Indonesia is fast approaching 100 percent, thus making Indonesia one of the most widely spoken languages in the world. Most Indonesians are often fluent in another regional language in addition to Bahasa Indonesia, for example Javanese, Minankabau and Sundanese.

Religion

In Indonesia, religion plays an important role in the everyday life. There are a number of different religions that are practiced in Indonesia, which exude a significant influence on the country's political, economical and cultural life.

Approximately 87 percent of the population belongs to Islam, and this makes it the world's largest Muslim population. Christianity is the largest minority religion, with just under 10 percent belonging, of which approximately 2 percent are Catholics and almost 8 percent are Protestants. There are also small groups of Hindus and Buddhists, which includes the Balinese people who are Hindu. Supporters of traditional tribal religions are found primarily in the interior Borneo, Sulawesi and Papua, where Christian missionaries are particularly active.

Indonesia has no state religion. The national ideology was constitutional in 1945 and is called Pancasila, which means the five principles. This corresponds to the five approved religions, Islam, Protestantism, Catholicism, Hinduism and Buddhism. They are equally important. Most Indonesians tolerate different religions and some also participate in celebrations from more than one religious tradition.

Indonesia includes numerous ethnic, cultural and linguistic groups, each with cultural identities developed over centuries, and influenced by Indian, Arabic, Chinese and European sources.

Food

Indonesian cuisine varies by region and is based on Chinese, European, Middle Eastern and Indian precedents. Rice is the main staple food and is served with side dishes of meat and vegetables. Spices, notably chili, coconut milk, fish and chicken are fundamental ingredients.

Health

Healthcare is a major challenge, but the general health and life expectancy have improved for most Indonesians the past couple of years due to improvements in nutrition and availability of clean water. Life expectancy is 73 for women and 68 for men.

Indonesia has successfully developed a system of community health centers in towns and villages allowing access to primary healthcare. This gives a more conducive investment climate in the healthcare sector, serious improvements could be made, and the two million people that travel to Singapore and other neighboring countries for medical treatment every year could instead support the local economy.



*Church in Tombok,
Lake Toba (North Sumatra)
Photo by Marie H. Johansen*

Political Structure

Indonesia became independent in 1945, after a long period of Dutch colonial rule. The political system is a framework of a presidential representative democratic republic. Indonesia is a unitary state with power concentrated in the national government. The Constitution in Indonesia regulates the position and responsibilities of state officials, their authorities, tasks and relations between state institutions (legislative, executive and judicial). It also regulated the rights and responsibilities of citizens.

Indonesia's highest political institution is an elected People's Consultative Assembly (MPR). The President of Indonesia, today Susilo Bambang Yudhoyono, occupies the position as the head of state and head of government, and is responsible to the MPR.

The legislative institutions consist of the People's Consultative Assembly (MPR), and a House of Representatives (DPR).

The executive contains of the President, who carries out his tasks with the assistance of a Vice President and Cabinet. Governments at provincial level are headed by a governor, and municipal level headed by a mayor. The President and Vice President are both selected for a five- year term by the vote of the citizens. Until 2004 the Peoples Consultative Assembly elected them.

The judicature consists of the Supreme Court, the highest judicial institution.

The main political parties of Indonesia are the Crescent Moon and Star Party (PBB), the Democratic Party (PD) and the Functional Groups Party (Golkar).

Current political situation

The current President of Indonesia, Yudhoyono, was the country's first directly elected president in 2004, and he was re- elected in 2009.

With renewed confidence from the people and the broad support in the parliament, he is able to continue his reformasi program. The government's political program for his five- year period as a president, focuses on the fight against terrorism and corruption, Indonesia's contribution to global climate policy and the global economy, reform of health and education, but also contributing to continued economic growth and security for the population.

The president has great confidence and popularity among the people. Most people also believe that the president makes an important and good job to ensure the country's democratic and economic positive development. He has also become very popular, both nationally and internationally for its efforts in the fight against terrorism and corruption. Some of the criticism against the government is that reform efforts are proceeding too slowly and the president in some cases must show stronger leadership.

Foreign policy

After focusing on internal problems for several years, Indonesia has now major foreign- policy ambitions. Indonesia has become a non- permanent member of UN Security Council, and has signed several cooperation and friendship agreements with key countries like the EU, USA and Australia. Indonesia has traditionally played a leading role in the Non- Aligned Movement in the United Nations and is not trying to regain this position. As the world's third largest democracy with moderate Muslim- majority, Indonesia would like to play a role as a bridge between Islam and the west. Several state leaders visit Indonesia every year. ASEAN is an important organ of Indonesia's regional engagement. They also have extensive bilateral cooperation with some of the ASEAN partners, especially Malaysia and Singapore. APEC is also regarded as a central area for regional economic cooperation.

NORWAY IN INDONESIA

Indonesia Norway Business Council (INBC)

INBC has approximately 40 members, which includes 20 Norwegian companies, such as Statoil, Jotun, Aker Solutions, DNV and Yara. The purpose of INBC is to promote cooperation between Norway and Indonesia, by forming a network that provides a forum for Indonesian and Norwegian companies. The recent focus has been connected to issues related to operate Norwegian business activities in Indonesia. INBC is experiencing a growing interest among Norwegian companies for investment and trade with Indonesia.

The Royal Norwegian Embassy

The Royal Norwegian Embassy is located in Jakarta and works to promote and further develop bilateral ties and co-operation between Indonesia and Norway, as well as promote Norwegian interests in Indonesia. They are responsible for consular matters such as issuing visas for people who would like to travel to Norway and providing services to Norwegian citizens living or visiting Indonesia.

Innovation Norway

The Norwegian Embassy represents Innovation Norway in Indonesia and works closely with the regional office of Innovation Norway, located in Singapore. During the Norwegian foreign minister's visit to Indonesia in November 2010, Innovation Norway, The Norwegian Embassy and Indonesia Norway Business Council (INBC) jointly arranged a high-level energy conference in Jakarta.

Bilateral relations

Indonesia is in the limiting extent depending on financial assistance. Indonesia and Norway have had a long and good collaboration and there has recently been an increase in the bilateral cooperation and important areas including the climate change regarding forestry and energy, human rights and democracy and humanitarian aid.

Climate change

Indonesia is the world's third largest emitters of greenhouse gases, and in 2007 was a joint declaration on increased cooperation on climate and energy launched by Prime Minister Stoltenberg at the UN Climate Change Conference in Bali. In May 2010, Norway and Indonesia signed a "Letter of Intent" regarding cooperation on reducing greenhouse gas emissions from deforestation, forest degradation and the conversion of peatland. Norway has pledged close to \$1 billion on the condition that Indonesia deliver concrete results on the reduction of greenhouse gas emissions and pursue a more proper forest policy. Norway and Indonesia are working together to achieve a forest agreement, which will form part of an international climate agreement under the UN Framework Convention on Climate Change.

Within the environment, the focus is on good forest management with the fight against illegal logging. Through the "Letter of Intent" which was signed in Oslo in May 2010, Norway is supporting Indonesia to reduce emissions through REDD+. The Rainforest Foundation also has several projects in Indonesia supported by NORAD.

Human rights and democracy

Norway supports several programs related to gender and democracy, which include aims to increase the protection of women's rights, the focus on supporting more effective participation among women in democratic governance and promoting cultural, religious, gender and sexual diversity in Indonesia.

Norway also has a strong focus on human rights in Indonesia. The challenges are many, in areas such as freedom of religion, freedom of speech, economical, social and cultural rights, minority and indigenous peoples' rights and as mentioned, the position of women in the society.

Norwegian companies has a responsibility to insure that none of the human rights are being violated within their company, they are also urge to look further and include their entire supply chain.

The human rights situation as well as the freedom of speech has considerably improved in Indonesia after the Suharto regime. Unfortunately, we see that threats still occur. Several Non-Governmental Organisations (NGO) have also been questioning the rights of inmates in prisons in Indonesia. The death penalty has also been practised on some occasions. In 2004 there were 54 people under the sentence of death penalty, 30 of these were drug related.

Indonesia has the largest Muslim population in the world. Islam is however not the state religion of Indonesia, Pancasila is the official philosophical foundation of the Indonesian state, and there are five principals that a religion has to have to be accepted. In practice, freedom of religion is limited, one only has the freedom to choose between six approved religions and there are still discrimination against other religious groups and non-believers.

Amnesty International and Human Rights Watch report on the human rights violations in the form of torture, unnecessary use of force by police and military in parts of Indonesia. This is particularly a problem in Papua, where there is large proportion of indigenous people and groups with so-called "separatist aspirations".

The Indonesian legal system is still considered to have significant challenges of corruption, which means that NGOs are questioning the citizens' legal security. Indonesia has not dealt with past human rights violations, and impunity for abuse is still a serious problem. More about the human rights situation in Indonesia can be read at Amnesty International and Human Rights Watch's website.

Norway has had formal human rights cooperation with Indonesia since 2002, with an annual human rights dialogue at the political level. The Indonesia program at Norwegian Centre for Human Rights has since 2002, also carried extensive project activities in the field of human rights, and as of now the focus area is enlightenment of human rights within the military, children rights and religious freedom. More information can be found on the Norwegian embassy's website

Humanitarian aid

Norway has been a major contributor to the rebuilding of Aceh after the tsunami in 2004 and has approximately spent NOK 300 million in emergency aid and reconstruction. The funding is primarily through the multi-donor fund Multi Donor, which finances a variety of projects in the sectors of the reconstruction of communities, infrastructure, capacity building and sustainable environment.



Wild, male orangutang, Gunung Leuser National Park ,North Sumatra

The rainforest viewed from Bukit Lewang, Noerth Sumatra

(Photos by Janam Vettivel)



CSR IN INDONESIA

“In 2007, Indonesia became the first country mandating CSR by announcing Article 74 of the revised Limited Liability Company Law (Law No.40/2007), which focuses on extractive industries. The controversial article initially required companies to allocate 5% of profits to CSR.” – CSR Asia

Environment

Norwegian companies should take a precautionary approach to pollution and implement risk management programs to ensure both their own interests and the environments. There are several ways of earning money on implementing environmental-friendly measures, one can for instance apply a life cycle approach or be more efficient in use of: material, power and water.

Climate change will have serious impact on Indonesia. Indonesia is the world's third largest emitters of greenhouse gases, of which almost half is made up of emissions from the destruction of the CO₂-rich turf areas. Issues for the environmental sector in Indonesia include poor overall management of conflicting legal frameworks and controversial issues including in relation to land ownership. Weak capacity with regard to law enforcement and administration, particularly in the forestry sector hampers efforts to implement effective laws in response to climate change. Indonesia is one of the countries in the world that is most exposed to natural disasters.

Norwegian companies entering Indonesia should therefore take part in the environmental responsibility. Today we see that this is becoming a more important factor all around Asia, and Indonesia is not far from entering this way of thinking. One of Indonesia's goals is that 17 percent of all energy is to come from renewable energy within 2025. Companies that take greater environmental responsibility will then have a competitive advantage, and be more allegeable for long-term investments.

In September 2009, the National Assembly adopted a law on “Environmental Protection and Management” which gives the government the authority to revoke licenses to companies that pollute. It the present Environmental Ministry in its semi-annual report identified 56 companies to be engaging in harmful environmental Practice.

Norway has since 1990 had environmental cooperation with Indonesia through development cooperation. Since the visit of Prime Minister Jens Stoltenberg to Indonesia in 2007, climate change and energy has become one of the main focuses for development assistance as well as political cooperation.

Supply chain awareness

Supplier chain of conduct is not always enough to ensure that your supply chain is free from labour abuse and human rights violations. The supply chain conduct have helped to stop some of these issues especially like sweatshops, but there are still some bad practises that needs to be dealt with. Most of the international companies today monitor their suppliers to insure the human right and absence of child labour. Jotun has zero tolerance for child labour and has made it clear to their suppliers that there will be no warnings.

Some of these problems exist today due to very little training of factory managers in modern management. There is also a need to demonstrate to them and to their suppliers that CSR are important for their business, for the exact same reason that it is good for your company.

Community development

Companies play an important role in the fight against poverty by facilitating investment, employment and adding economical value to the region. There is still a lot that needs to be done in Indonesia to get more people into meaningful and sustainable jobs and move them out of poverty.

CSR Asia have listed five measures that foreign companies can implement:

- harnessing core corporate competencies and individual value chains to increase climate resilience in developing country enterprises and communities;
- partnering strategically with civil society – strategic alliances between business, NGOs, research institutes, and community organisations;
- increasing investments in public-private and hybrid financing mechanisms;
- creating industry-wide sector initiatives to establish common standards and spread technology and good practices; and
- engaging in public policy advocacy and dialogue in order to strengthen public governance and institutions that support adaptation.

CSR as a business plan

In a country like Indonesia where 30 percent live on less than US\$2 per day there is a huge market that is not being looked into by many other international companies. To be able to adapt your business to the developing economy and make it a sustainable business to benefit the local poor, you would have access to a huge undeveloped market.

By engaging and encouraging the local community and to see them as more than consumers, your business could be able to help them create business operations through profitable commercial activities. This can be achieved through development of supply chains in poor rural areas. This can again in the long term give your company more potential consumers, like entrepreneurs and small businesses.

The effect

CSR needs to be measurable; targets need to be set and impacts to be verified. This is an important step to make sure that the money spent on CSR measures are in reality giving the effect that you want. The Indonesian working environment is quite different from the Norwegian. They don't yet have all the employee security measures as in Norway, but they are improving. To always be one step ahead would be a good philosophy and could save your company a lot of money in the end.

But the main objective should be to demonstrate contribution to sustainable development in the region. Norwegian companies should seek to ensure that local benefits are maximised through local employment and the creating of business opportunities.

CSR Asia statement

“Above all, sophisticated stakeholder demands, the new media and a renewed interest in CSR by government and stock exchanges will require increased levels of transparency and accountability. Investors and other parts of the financial community are worried about companies’ exposure to environmental, social and governmental risks in Asia. Maintaining credibility and trust will require companies to look deeper into their own operations and impacts.”

A woman with dark hair, wearing a light green shirt, is shown from the chest up, holding a small globe of the Earth in her right hand. She is looking up at the globe with a thoughtful expression. The background is a soft-focus green field.

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PART 2: OPPORTUNITIES AND CHALLENGES



Jakarta intersection. Photo by Daniel Bernstein

In this part we will discuss the opportunities and challenges in Indonesia. We have chosen to do this to show potential investors what great opportunities this country has to offer, but also point out some of the most difficult challenges one will meet here. The focus is on the opportunities and challenges we see as the most relevant to Norwegian investors. We will also share stories about three Norwegian companies who have succeeded in Indonesia. These stories provide good examples of how the opportunities can be exploited, and the challenges dealt with in a good way. In the last part, we will explain the importance of doing a stakeholder analysis when entering the Indonesian market.

OPPORTUNITIES

Indonesia is a country of great opportunities. It is the world's third largest democracy offering stability with an immense domestic market. Powering the growth rates today and tomorrow is a young and determined workforce, half of the productive population is under 30 years and there is an increase of women in employment. In Indonesia, with its abundance of natural resources, significant industry and growing infrastructure, the effects are clear; economic growth has been sustained and GDP is expected to reach USD 1 trillion by 2014.

The Indonesian economy made it through the global financial crises without any big consequences. The economy grew by 4.5 percent in 2009 and this was the third highest rate in the G20 after China and India. This success stimulates confidence and helps continuing economic improvements. Consumer confidence remains strong and the financial markets are among the top global performers. Indonesia's economic fundament is strong. The Rupiah is stable against the USD and interest rates are steady. Further on, Indonesia has expanded foreign exchange reserves and a strong external account.



NHO

A RAPIDLY GROWING ECONOMY

BRIC

The OECD is now including Indonesia (and South Africa) together with the BRIC countries as some of the fastest growing economies in the world.

BRIC is the combination of the top emerging markets in the world, Brazil, Russia, India and China. The term was coined in 2001 by Jim O'Neill to describe the four nations he thinks will rival the U.S for world economic leadership by the year of 2020.

According to Morgan Stanley's Chetan Ahya, we can soon include Indonesia to one of the BRIC-countries.

A "confluence of benign factors" suggests that Indonesia's growth rate can accelerate to 6-7 percent a year from 2011 onwards, up from 5-6 percent in 2003-2008; in five years' time, the economy could be worth \$800bn, 60 percent more than today's figure. It has a favourable demographic profile and is a major commodities exporter.

Being part of BRIC gives a lot of advantages. BRIC has over the past years developed into a new international economic cooperation platform. The goal is to seek for common development through increasing international influence and coordination. BRIC countries are home to 42 percent of the world population. In 2008, they accounted for 14.6 percent of the global gross domestic product and 12.8 percent of the world's total trade volume. The leaders of the four countries will meet in Beijing next time to strengthen mutual trust and coordination in the post-crisis era.

As Indonesia's economy clearly has improved in recent years, it would not look out of place as part of the BRIC countries. Morgan Stanley has said that investors should stick with the BRICs, "a group that tends to outperform in non-recession years".

To be a part of a BRIC-country, you'll get more attention from investors, said Finny Fauzana, a fund manager at PT PNM Investment Management. According to Morgan Stanley, growth may accelerate by 7 percent from 2011, if Indonesia will be joining BRIC.

Chindonesia

Chindonesia is short for China, India and Indonesia because these three Asian countries could become the backbone of Asia's economic revival.

These three countries have caught investors' attention as they have had economic growth also during the global financial crisis.

Nicholas Cashmore, head of Indonesia research at CLSA Asia-Pacific Markets, says that China, India and Indonesia will generate US\$10 trillion of wealth for investors by 2015. He claims that the three economies are Asia's new growth triangle.

CLSA Asia-Pacific markets say that Indonesia's economy may double in the next six years as the world's biggest exporter of power-station coal and the largest producer of palm oil.

Investors expect to see growth rates approaching 10 percent annually for the three countries in 2011 and beyond.

Even though the three countries are different when it comes to culture and structure, there are several important features linking them together. They have the world's largest, second largest and fourth largest population, with about 40 percent of the population in the world. They have all for several years had strong economic growth, also during the global financial crisis. Analysts are now expecting the triangle to become the world's largest consumer market.

POPULATION AND RESOURCES

Population

With its huge population, Indonesia already has a big domestic market for products. One of the main reasons for Indonesia's growing economy is the growing middle class. The middle class is now 10 percent and it will continue to grow with the population.

CLSA's senior economist, Anthony Nafté, says: "Indonesia has a large domestic economy and favourable demographics with an expanding young and middle-class population".

More than a quarter of Indonesia's citizens are under the age of 14, indicating that the dependency ratio is likely to fall for at least the next five to eight years. This means that the labour force will grow for many years, with the challenges of supporting an older population, which is not as present as in other more developed countries.

Resources

Indonesia is a country rich in natural resources, ranging from mining and energy, forestry, agriculture to marine resources. Many resources are yet to be discovered. As the world's largest producer of palm oil, palm oil is the most important agricultural export crop of Indonesia. Other important resources are oil, energy, rubber and various agricultural products.

More information regarding business and natural resources can be found under Business Areas in Part 1. Read more about resources in specific regions under location and provinces in Part 2.



Riceproduction on Java. Photos by Daniel Bernstein

CHEAP LABOUR

Indonesian labour is inexpensive, and there are now several big manufacturing companies re-turning to Indonesia since the price of Chinese labour has risen. With an average monthly salary of around US\$150, this is a country with many opportunities. With the Indonesian population being in excess of 240 million people as well as an increase in the amount of economical active women, Indonesia has a good foundation for their ongoing growth.

The Man Power Law is the most significant new labour law since 2003, and includes compromises and rationalization on several pay and strike activities, as well as new constraints on business. Employer's associations and most major trade unions see the law as positive. The government that regulates employment practices in Indonesia is The Ministry of Manpower. The law acts as a mediator in labour disputes, supervises employment conditions, operates training institutes, issues work permits to expatriates, sets minimum wages and handles other human resource matters.

The Norwegian and Indonesian working hours are quite similar; both countries have a 40 hours workweek, 8 hours a day, Monday to Friday. If someone is working overtime, the standard rate is two times the basic hourly rate with the exception from the first hour.

The minimum wage monthly in US\$:

PROVINCE	MIN. MONTHLY WAGE IN US \$	YEAR
Jakarta	119,5	2010
South Sumatra	99,2	2010
West Java	119,5	2010
East Java	110,3	2010
East Kalimantan	107	2010
Papua	125,2	2009
Riau	118,7	2010

Source: Irai, 2010-2011, *Indonesia Business Guide*

Table 3: Minimum monthly wage



SSM SHIPPING

LOCATION AND PROVINCES

Indonesia is located in a very strategic place geographically: along major sea lanes from the Indian Ocean to the Pacific. One could say it's almost on the doorstep of both India and China.

Regional champion provinces

Within Indonesia there are certain areas that are The BKPM awarded 21 percent of the Indonesian provinces with the titles: "Regional Champion" in 2010, to highlight the growing maturity. The provinces highlighted were: Riau, South Sumatra, West Java, East Java, East Kalimantan, West Nusa Tenggara and Papua. These provinces will benefit from training packages and aggressive promotion inside and outside of the country, hoping they will receive investment project as a result.

Some of the selection criteria's were readiness for investment and natural human resources. The provinces scored high in these categories, primarily because they already are main areas for investment. For instance, West Java contains 65 percent of the country's manufacturing sector.

Riau and the Straits

Riau is located around the western seaboard and is one of the world's busiest shipping lanes. Riau has plenty of crude palm oil (CPO) and crude oil, and is producing around 60 percent of the country's total for the former and 38 percent of the latter. The largest paper pulp operation in the Asia Pacific region is also placed here. This gives the province the highest GDP of any Sumatran region, and is also making it the island's largest exporter. The province has various potential sectors, such as agriculture, fishery, plantations, forestry and mining.

Jakarta

Jakarta is the country's capital city and has a population of 9.2 million. The city has a growing economy a lot of opportunities for investors. Jakarta has an international airport and various seaports. Opportunities in Jakarta can be in the fields of capital goods, raw materials, consumer goods and a supporting infrastructure

South Sumatra

South Sumatra, not placed far from Riau, has a significant plantation sector with palm oil, rubber and extensive coal reserves. The capital city is Palembang, and the population is 7.8 m. To develop the province's infrastructure is the main object of the BKPM.

In August 2010, the South Sumatran authorities, BKPM, Adani Global and Bukit Asam, signed an agreement for the construction of a 270-km rail line from Tanjung Enim to Tanjung Carat. There will also be constructed a coal terminal with a 50m-metric-tonne annual capacity.

West Java

With a population around 43 million, it is the most populated province in the country. West Java has a fertile agriculture sector, with rice and horticulture, plantation crops such as coffee, cloves, tea and sugar palms, as well as forestry and fishery industries. A lot of natural resources in West Java have not yet been discovered and can have a lot of potential in the future. In water, there are potential investment opportunities, because of rivers flowing through Java and several important dams. Along the coast of the Java Sea, there can be found oil, and there are geothermal resources available in many areas.

East Java

The capital city is Surabaya, which is the country's second largest city. East Java is an agricultural centre and has mineral resources such as marble, chalk and salt, along with hydrocarbons in the Cepu oil field. In 2010, promotion has focused on the Tanjung Bulupandan port development, which will help meet maritime transport requirements for 2013 with larger and deeper water berths and new port buildings.

Because East Java is the second biggest in economic growth after DKI Jakarta, there are a lot of investment opportunities. The province is supported by adequate infrastructure, with five airports and more than 20 seaports.

West Nusa Tenggara

West Nusa Tenggara has a population of 4.4 million, and the capital is Mataram. The two major industries in West Nusa Tenggara are tourism and mining. The various mining resources that are available to be explored are marble, pumice stone, quartz, silica, calcite and many others.

For foreign businesses that are looking for an area full of diversity, West Nusa Tenggara offers plenty of investment opportunities. Good opportunities are agriculture, fishery, forestry, industry and tourism

East Kalimantan

East Kalimantan is the second largest province by land size. It borders to Malaysia in the north and the Makassar Strait, the Sulawesi Sea and the Sulawesi Strait in the east. The capital, Samarinda, is the forestry centre, while the second city, Balikpapan, hosts the petroleum industry.

Some of the natural resources that can be located in the province are gold, coal, oil and gas for mining and forestry products, which is not yet fully explored. Because of the dry land in the province, the development of coconut, rubber, cocoa, palm oil and nutmeg plantations is also good.

There is also an opportunity to develop the fishery sector. Natural and mineral resources are attractive for investors since geologically East Kalimantan has large deposits. For the industry sector, the province has natural resources like forestry, plantation and sea-based resources, and technology-based industries in the petrochemical, off shore drilling equipment, methanol and dockyard sectors.

Papua

Papua is Indonesia's largest province, and also a regional champion. Papua is a province that is not as industrialized as some of the other provinces. Papua is Indonesia's treasure chamber for natural resources, and has the world's largest gold mine as well as it is quite likely that the P.T. Freeport copper mine can evolve to be one of the world's largest of its kind. Papua has various natural and biological resources. One sector where Norwegian companies might have a lot of knowledge to offer and benefit from would be within fishery.



Map of Indonesia

FOREIGN DIRECT INVESTMENTS

Indonesia has come a long way since the late 1990's. The new economic laws and policies are bearing fruits in the form of stabile growth and increased inflow of foreign direct investments (FDI). Still, the domestic and foreign investments are inadequate to meet requirements for basic infrastructure and higher productivity. The Indonesian market have been open for investments since the mid- 1980s. Foreign investors have now again taken notice of this emerging market after the downturn during the Asian financial crises. Today the FDI inflows are more or less at the same level as before the crises, this is much due to the Investment Law that came into effect in 2007. While the sources of FDI in Indonesia have become more varied, much of the investment comes from only a few countries and is concentrated in Java and Sumatra, particularly within manufacturing.

Throughout the recent years, the economic policy has shown improvements. One of the subjects the government is working on, is protection of intellectual property rights and to register land and property. The 2007 Investment Law gives protection to investors against expropriation and enshrining national treatment. The Negative List was issued alongside with the Investment Law of 2007. This list stats all the sectors where foreign investments are not allowed or where they are subject to restrictions

Indonesia has signed a number of bilateral and regional investment agreements and has agreed on the International Centre for Settlement of Investment Disputes convention. Their disputes between the government and foreign investors may be settled through international arbitration.

Indonesia has worked to streamline the investment approval procedures through a one-stop integrated service, as they are actively promoting investment. The Indonesian Investment Coordination Board (BKPM) is responsible to see to administration and promotion of investment, and a National Team on Export and Investment Promotion has been formed to advance reforms.

Today BKPM are making a lot of strategies for promoting linkages between foreign and local businesses. The competition regulatory authority has a mandate to evaluate the effects of government policies on competition, and has also got operational independence and investigative power.

After the 1997-98 crisis, public spending has not filled the gap left by the disappearance of public private partnerships (PPP) in infrastructure. As a result, Indonesia is not quite keeping up behind its regional peers. Because there is a national priority to increase spending on infrastructure, there has been put in place a new legislative framework to accommodate PPPs, institutions created to activate private investment.

After the financial crises, there was a major restructuring of the banking sector. As an effect of this, the banks have become more robust, but also less interested in lending for investment. The Indonesian finance sector has been open for investments for the last 20 years, although after the shock in 1997- 1998 the financial sector in general seems more reluctant to risk.

For the foreign-owned companies in Indonesia, the same tax regulation applies as for the domestic companies, but the increase of local taxes has added to the burden on investors.

Problems with corporate governance were a major contributor to Indonesia's economic collapse in 1997-1998. Since then, Indonesia has made progress in establishing a corporate governance framework, notably through the 2007 Company Law and the corporate guidelines published in 2001.

“The main recommendation from the OECD is that the Indonesian government perseveres with its efforts to increase the transparency and accountability of this framework and continue to share experience of good practice in formulating and implementing investment-related policies. “

- OECD Investment Policy Reviews Indonesia 2010

BKPM

BKPM is the Investment Coordinating Board of the Republic of Indonesia. BKPM is mandated to boost domestic and foreign direct investment through being a one-stop shop and to contribute to a better investment climate. Some of the key goals of the agency are to improve social inequality and reduce unemployment through quality investments. BKPM is a congregation of 16 ministries' and has a mandate to operate on their behalf regarding investment approvals.

In an interview with Oxford Business Group Gita Wirjawan, chairman of BKPM said that despite upgrades from the various rating agencies he still thinks Indonesia is undervalued. He further states that corruption and legal uncertainty exists to a certain degree. However, investors need to look at the situation in a long term and judge the country on its trajectory.

At the end of the report you will find both the Negative List (2010) and a quick guide on how to register your company in Indonesia.



Figure 2: BKPM strategy

GLOBALISATION AND APINDO

Globalisation

Indonesia's policy of globalisation has been based on pragmatism. The country has gone a long way from liberalising its economy, but is far from complete. Globalisation has given the government a strong justification for undertaking market oriented reforms that can help maintain high and sustainable rates of exports necessary for strong economic growth.

Their pluralism is mainly based on what other countries in Southeast-Asia has been able to achieve, and the competition for liberalism is a powerful factor. The universal trend in 1980 toward economic liberalisation, deregulations and privatisation may have provided an important source of inspiration.

Because Indonesia participates in regional co-operation, it will be easier to take part in global economic integration more efficiently. The Indonesian government has argued that they'll be able to become more internationally competitive if the economy continues to open up.

In Indonesia today, as well as other ASEAN-countries, there is a shared agreement that the government has been successful in undertaking the first-order domestic adjustments in response to globalisation.

Indonesia's trade and investments has been substantially liberalised since the 1980's. These policies have been introduced in response to what the government perceives to be a trend, toward globalisation and the international integration of markets

APINDO

PUPSI (employer's council on socio-economic affairs) is APINDO's original name and was founded in 1952, by a group of Indonesian employers. The organisation was initially founded in Jakarta, but expanded its membership to all provinces and industrial centres. In 1985, PUPSI changed its name to APINDO (Assosiasi Pengusaha Indonesia, The Employer's Association of Indonesia). APINDO is the unifying organisation for employers, and is participating in establishment of social welfare through integrated cooperation between the Government, Employers and Workers. APINDO's head office is located in Jakarta, but also has offices in 26 other provinces. APINDO should be reviewed as a good resource when you are looking for information and advice regarding employees.

For several years, The Confederation of Norwegian Enterprise (NHO) and APINDO have cooperated closely. In 2002, formal relations were introduced, when both parties confirmed their interest in cooperating. In April 2003, representatives from the APINDO board were invited to Oslo to discuss the contents of a possible agreement on cooperation. After the meeting they signed a Letter of Intent. Two of the topics in this letter were to conduct seminars concerning occupational safety and health, as well holding seminars concerning CSR. This means APINDO has up to date knowledge on these subjects as well as having the necessary knowledge on how to implement it into an Indonesian organisation.

In 2010 they concluded a five-year agreement on cooperation, where the main object is to improve the framework for business development and industrial relations and mainly follow the guidelines given in the Letter of Intent.

SECTORS

Today, there are about 20 Norwegian companies in Indonesia. For foreign investors there are a lot of opportunities in doing business here. In this part we have included the eight sectors which are mainly relevant for Norwegian interest and investment. EU Indonesia Trade and Investment present five of these sectors. The three most important sectors are:

- Shipping
- Oil and gas
- Energy

EU Indonesia Trade and Investments have presented some sectors where European enterprises have technological or design capabilities, which are complementary to the Indonesian economy in trade and investment. The criteria for selection of sectors included recent trade and investment performance, significance of barriers to trade and investment and prospects for potential expansion of trade and investment links between European countries and Indonesia. The sectors are:

- Power generation equipment
- Non-electrical machinery
- Consumer goods
- Pharmaceutical products
- Telecommunications Equipment and Services

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SHIPPING

With over 17 000 islands, Indonesia relies strongly on ferries and ships to connect the islands to each other and to the rest of the world. In Indonesia it is around 1700 ports.

Indonesia and Malaysia control the Strait of Malacca, an 805 km passage between the Indonesian Island of Sumatra and Malaysia. The Strait is the main shipping channel between the Indian Ocean and the Pacific Ocean, and connects the major Asian economies such as China, India, Japan and Indonesia. Around 25 percent of all goods shipped, passes the Malacca Strait. There is a great potential within shipping with more than 90 percent of imports and exports. About 84 percent of the domestic goods make use of sea transportation. This consists of containerized goods, break-bulk as well as RO/RO shipments.

Since 2005, Indonesia has been gradually implementing cabotage to boost the underdeveloped domestic shipping industry. Cabotage is the principle of reserving of privilege of navigating and trade only to vessels that are registered in Indonesia.

Oil and gas companies in Indonesia are concerned that domestic shipping companies will not be able to meet their needs for high-tech vessels, and this will reduce investment in the vital sector. Upstream oil and gas regulator BPMigas has applied exempt from restrictions on domestic shipping with no luck so far, but it seems that the government is taking this issue serious.



The director general for oil and gas at the Energy and Mineral Resources Ministry, Evita Herawati Legowo, said to the Jakarta Post, that her ministry had seen a decline in investors' interest to invest in the oil and gas sector due to the cabotage regulation. "Investors' appetite to conduct off-shore drilling has decreased due to the cabotage principle," she said at the opening ceremony of the IATMI congress and national symposium. She explained that her office was now looking for solutions because the regulation was counter-productive due to the plan of the government to produce a million barrels of oil per day (bopd) in 2012.

On April 8 2008 a bill was approved to replace Law No. 21/1992 concerning Shipping. In the previous law, the state owned company PT Pelindo, functioned as both port regulator and port operator. With the new law the company will no longer be the sole port operator in Indonesia by 2011.

The new law allows foreign and domestic private entities to operate ports in Indonesia without having to partner with or seek assistance from Pelindo. The Foreign Investment Negative List clearly states that certain lines of business are now open to foreign involvement with a maximum ownership of 49 percent.

The container port Tanjung Priok account for half the total traffic of the 11 container ports. The productivity of this port is low and it is major queues to dock. Pirates can be a threat when ships are staying at anchorage for days. Some ships are anchoring out at sea, fearing pirates.

Pelindo II has an ongoing upgrade program to overhaul the container port Tanjung Priok for \$1,6bn over the next 8 years. Pelindo II is also planning to build a new \$133m port at Kalibaru in North Jakarta, that will be completed by 2015.

Shipping on a Dock in Jakarta.
Photo: Daniel Bernstein

OIL AND GAS

Oil

Oil production in Indonesia has decreased steadily the last decade, due to disappointing exploration efforts and fewer investments.

In April 2010, Indonesia had proven oil reserves of 4.44 billion. These reserves, often in deeper waters, are hard to explore and exploit, especially for Indonesia since there is a lack of advanced technology. This could be a great opportunity for Norwegian oil companies, since Norway is among the world leaders within deep sea drilling.

In 2004 Indonesia became a net oil importer and shortly thereafter they suspended their OPEC membership. Indonesia produces around 1.8 percent of the total oil production in the world, which ranks them to seventeenth among the world oil producers. The oil sector in Indonesia is dominated by the state-owned company, PT Pertamina, and a few international oil companies. The single largest oil producer is Chevron, but other significant oil producers are BP, ConocoPhillips, ExxonMobil and Total.

In October 2001, the new Oil and Gas Law No.22/2001 was adopted. The law forced the state-owned oil company Pertamina to relinquish its role in granting new oil development licenses and limited the company's monopoly in upstream activities. However, Pertamina maintains a dominating position in the downstream sector, controlling all eight of Indonesia's refineries.

Indonesia's two largest oil fields are Minas and Duri, which are operated by Chevron and located along the eastern coast in Sumatra. These are mature oil fields with declining production.

Gas

Indonesia natural proven gas reserves were 3.001 trillion cu m in January 2010. Indonesia ranks as the sixth largest gas producer in the world, they are responsible for exporting 16 percent of the world's total gas demand. Indonesia's two major liquefied natural gas (LNG) production plants, the Bontang facility in Badak, East Kalimantan and the Arun plant in North Sumatra, have experienced declining production in recent years. Indonesia is therefore investing in exploration of natural gas.

In the same way as the oil sector, Indonesia's gas sector underwent reforms with the passage of the Oil and Gas Law No. 22/2001 and BP Migas now holds primary regulatory authority in the gas sector. Six major international companies dominate Indonesia's natural gas industry accounting for more than 90 percent of the country's production. The six companies are Total, ExxonMobil, Vico, ConocoPhillips, BP and Chevron.

Historically Indonesia's gas production has been geared toward export markets, but the country has made an effort to use natural gas domestic, as a substitute for the declining oil production. However, it is a challenge to distribute domestic, due to the tough infrastructure. In 2001 Indonesia started exporting natural gas through a pipeline to Singapore on a 20-year contract.

One project that holds promise for Indonesia's future in worldwide LNG markets is the BP-led Tangguh project in Papua province. This facility includes two liquefaction trains that produce at least 7.6 million mt/year of LNG. It is based on 14.4 trillion cubic feet of proven gas reserves in three neighbouring production-sharing contracts.

	OIL	NATURAL GAS
Production	1.023 million bbl/day	70 billion cu m
Consumption	1.115 million bbl/day	36.5 billion cu m
Reserves	4.05 billion bbl	3.001 trillion cu m
Export	85.000 bbl/day	33.5 billion cu m
Import	671.000 bbl/day	0

Table 4: Oil and gas facts

Today PLN PUSAT has a monopoly over the transmission and distribution of electricity in Indonesia, controlling over 32.255 km-circuits of transmission lines and 573.165 km-circuits of distribution lines. The forecast for the energy demand in Indonesia shows urgent need for new generation capacity. Today Indonesia electrification ratio is 62 percent, and this underlines the undersupply of electricity in Indonesia and shows the intrinsic growth potential in Indonesia.

For Indonesia, coal remains a major component of energy supply and domestic gas consumption looks set to increase at the expense of exports. Indonesia is likely to downsize its LNG export plans in order to satisfy growing local demand.

Oil has been a major part of power generation, but a focus on greater use of coal and gas is aimed at reducing the pressure on dwindling oil reserves and production.

Indonesia is home to an estimated 40 percent of the world's renewable energy potential, and the Energy Ministry plans to increase the role of renewable energy, particularly geothermal energy.



*The active volcano Krakatau, South Sumatra
Photo by Daniel Bernstein*

Coal

At the First Long Term Development Program 1969-1994, Indonesia had plentiful supplies of oil and gas. In the Second Program (1994-2019), it was realized that Indonesia was going to become an importer of oil and gas. Because of the country's large coal resources, it led to a shift from fuel to other sources of energy like thermal plants to particularly coal.

The demand and production for Indonesian coal has been growing faster than the overall Indonesian economy for several years. Currently, Indonesia is the world's leading coal exporter. From 2006 to 2030, world coal consumption is expected to increase by 49 percent.

Indonesia recently implemented Law 44/2009 on mining, which further is supported by the implementing regulations – Perpu No. 22/2010.

The new law stimulates that:

- 1) Mining can only be done in designated areas to protect the environment
- 2) The previous contract based system has been replaced by a mining licence
- 3) New projects will be awarded through competitiveness tenders to make the progress more transparent.

Indonesia's advantage of having plenty of reserves of good quality coal, efficient cost structure and short distances for transportation further strengthen the competitiveness of Indonesian coal.

GEOTHERMAL ENERGY

It is estimated that Indonesia may have up to 27.140 MW of geothermal resources. This ranks Indonesia to the world's fourth largest reserves. Conventional thermal sources are expected to remain the dominant fuel for electricity generation in the coming years, with many power projects under construction or planned that will use coal or gas.

Prior to the Asian financial crisis, Indonesia had plans for a rapid expansion of power generation, based mainly on opening up Indonesia's power market to independent power producers (IPP). By 1997, when the region was hit by the Asian financial crisis, twenty-seven IPP contracts in Indonesia had been signed between the state-owned electricity company PLN and private investors.

As the Asian financial crisis hit, all the state-owned electricity companies in these countries found themselves in deep financial troubles in honouring the IPP contracts, mostly with the take-or-pay clause under which they have to pay for the electricity no longer in need due to the contraction of the economy.

Geothermal regulations

For up-stream there is a geothermal law No. 27/2003 that is meant to regulate the utilization of the geothermal energy for supporting a sustainable development and the additional value of energy.

The downstream business that engages in electric power generation shall be subjected to prevailing Electricity Law No.15/1985. This law states that the electricity provision is conducted by the state and carried out by state owned enterprise (PLN) as electricity Business Authority. Other enterprises (e.g.: private sector, cooperatives, and local enterprises) have opportunity to participate in electricity provision through IPP (Independent Power Producer) and PPU (Private Power Utility)

Investment mechanism of private participation

According to The National Electricity General Plan (rukun), the total energy consumption should increase from current 5 percent to 17 percent in renewable energy within 2025. Geothermal is expected to account for 5 percent of the contribution of renewable energy with a target of 9.500 MW.

Private sector participation consists of IPP (Independent Power Producer) and EPC contractors (Engineering, Procurement and Construction). All IPP projects should be based on bidding process, except for renewable energy power plant (includes geothermal power plant), marginal gas, mine mouth, excess power, system crisis condition and expansion of the installed power plant.

Challenges in the geothermal sector

One of the economic risks that can occur in the geothermal sector is extensive upfront capital, like survey, exploration, field development and construction. The time from ground breaking to commercial operation can be long, and by that time, the economic climate might have changed. Judged at the level of PLN, an economic geothermal tariff may be high, but this excludes consideration of externalities (environment, resource depletion etc.)

There might be major upfront risk when you are starting a geothermal project. Once the project is started, there will be a long-term ongoing risk. Other project risk that might occur will be drilling risk and project implementation risk. Business risk in the geothermal sector includes inconsistency of interpretation of existing contracts (Joint Operating Contracts and Energy Sales Contract).

For new developments today, there is no current legal and political framework so you must make sure that upcoming regulations provide this.

OTHER SECTORS

Power generation equipment

Demand for electricity has been growing strongly in Indonesia, due to strong economic growth of more than 5 percent annum over several years combined with regulatory limits on energy prices and a complex regime of energy subsidies and electricity tariffs. Because the regulatory framework and the investment climate are complex, there is significant potential for increased import of power generation equipment.

The future import will vary, but considering the sophisticated technology and industrial facilities, Indonesia will remain import dependent for some time yet for its power plants, gas turbines, big diesel generating sets and ancillary equipment such as big pumps, control and regulation, high transmission switchgears etc. The development of renewable energy will also bring new trade opportunities for equipment like wind turbines, solar cells, bio-fuel manufacturing factories etc.

Non-electrical machinery

Non-electrical machinery and equipment makes up to Indonesia's largest import categories. European competence in the non-electronically machinery sector is based on very strong technological and product capabilities. Japan is the major competitor in almost all categories. The European machinery industry has a long history, established brand names and European manufactures have had to innovate to address stricter environmental regulations earlier than developing countries. This is now a strong advantage. Compared to Chinese manufacture machines, European machinery is highly energy-efficient.

Industrial production

A major example of a company who has done very well in Indonesia is Jotun. Jotun is today the market leader of supply of paint to the marine sector, number two in protective paint, and the segment of decorative paint also is increasing. Aker Solutions is another Norwegian company that has done well in Indonesia. The company is producing equipment for the oil and gas sector.

Other Norwegian companies are also involved with production for offshore-and shipping industries in Batam. Batam is a great place to do industrial production, because the infrastructure is good, the location is strategic and it is a Free Trade Zone (FTZ)

Pharmaceutical Products

Indonesia is currently a relatively small and restricted market for developed world pharmaceutical exporters, but there still is a future growth potential. Of all the developed suppliers, European suppliers are today the best positioned to capitalize the market growth. EU companies in this sector are rapidly increasing, and the attractions of investing in Indonesia should not be overlooked.

Consumer goods

The consumer goods sector is rising as income increase due to economic growth and demand for a wider range of products. The sector is growing because the capital income rises, especially in urban areas. Niches that are examined are especially foods and beverages, luxury products and cosmetics and retail distribution. Other niches can be significant as well.

Consumer goods import is now between 8 percent and 10 percent of total Indonesian import. From 2002 to 2007 the growth has been about 14-15 percent. Import decreased in 2008 and early 2009 with the global downturn, but is expected to rise.

The main reason this is an important market, is due to the size and growth of the country, as well as a growing middle class, with income over USD \$3,500 per month. Of other importance is consumer's evaluation and acceptance of new products. Economic growth, demographic development and consequent social changes will drive the market for consumer products.

Telecommunications

The Indonesian telecommunication industry is amongst the fastest growing in the world. Indonesia was in 2008 the third largest telecommunication market in Asia, after China and India. The research institution placed Indonesia as number six in the top Mobile Market rankings, above a lot of developed countries like Italy, Japan and Germany.

European companies have a strong technology base in GSM and 3G systems, this growth can result in expanding sales and opportunities. Since some of the network equipment is manufactured in Europe this will lead into growth in exports of telecommunications from Europe to Indonesia. There are good prospects for growth and expansion of the exports in telecommunications, due to a favourable macroeconomic growth environment for Indonesia.



Village market in Bukit Lawang, North Sumatra, Photo by Janam Vettivel

CHALLENGES

With great opportunities come big challenges. We have addressed the five that we consider the most important. These are corruption, infrastructure, environmental threats, security and the legal system. We will explain the difficulties and provide up to date information on each issue. In addition to this we have tried to provide “solutions” on how to deal with the challenges

INFRASTRUCTURE

Infrastructure development plays a significant role in all countries to boost economic growth, job creation, poverty reduction, human resources development and increasing industrial competitiveness. Infrastructure includes roads, telecommunication, seaports and shipping, airports and airlines, railway, water and sanitation, and energy.

Indonesia has challenges financing infrastructure development. They will need to spend \$150 billion over the next five years in order to reach the government's intended target of building 20.000 km of roads and 15.000 MW of power generation. This also includes construction of a number of ports, airports and railways. Since the government only have 31 percent of the amount acquired, they rely heavily on private investment. The completion of these projects will be vital to establish the necessary connectivity throughout the country and is a foundation for further investments. Several people have predicted that if nothing is done with the infrastructure by 2014, the development and economy of Indonesia will stop.

As an effort to accelerate infrastructure development, the government established PT Sarana Multi Infrastructure on 26th of February 2009. This state- owned company was established to be a catalyser in the acceleration of infrastructure development in Indonesia.

Roads

Indonesia's road network has increased from 310.489 km in 2004 to 371.793 km in 2009. However, during the same period, the number of vehicles grew from 41 to 81million. The massive increase is likely to continue, due to a growing middle class, and that it is just 280 vehicles per 1000 people. As a result, road use is widely expected to increase by around 10 percent annually.

One of the biggest problems in all infrastructure sectors is land acquisition. Especially when building highways, projects are delayed or even cancelled. Only the president can force a landowner to sell, but this is a lengthy process through many levels of bureaucracy. This process could take as long as six years, but it has been promised that with a new legislation it should not take more than six months. This legislation will take place in first part of 2011, and it will put a time limit on negotiations and an independent appraisal of land value will be undertaken. Before the legislation, the land acquired for starting a road project had to be 75 percent, but that will go down to 50 percent. The legislation aims to improve infrastructure and ease traffic flow.

The most important initiative on developing the existing road network is the National Long- Term Transport Sector Plan (RPJP). The Ministry of Public Works and the Ministry of State- Owned Enterprises initiated this in 2005, and it runs to 2024. This plan is subdivided into five- year sections, with the 2010-14 segments now under way, known as RPJP2. In this period the goal is to have a functional road network covering over 95 percent. The ultimate goal in 2024 is to have an integrated and safe road network, linking all the country's regions together.

Telecommunication

Telecommunication has shown spectacular growth in recent times and is one of the fastest growing in the world. In September 2000, Telekomunikasi Indonesia lost their monopoly as a sole operator and regulator in telecommunication. Now it is a heavily competitive area with huge infrastructure investment and with 11 operators in the market. Business Monitor International forecasts that the telecommunication sector will grow 25.7 percent annually from 2007 to 2014.

Mobile growth has been spectacular since the first license was issued in the mid 1990s. In 2009, the mobile penetration rate was around 65 percent, with approximately 150 million subscribers. The fixed line penetration rate is also rising. In 2010 the rate was 16 percent, up from 7.7 percent in 2007. In fixed line, Telkom has around 99 percent of the market.

Telecommunication sector will continue to attract interest from investors both domestically and internationally, with the growing economy and a huge population. In order to develop telecommunication infrastructure, the Ministry of Communication and information has set aside approximately \$132 million for the eastern part of Indonesia.

Seaports and shipping

As the world's biggest archipelagic country, water transportation plays a vital role in connecting the islands of Indonesia. It is two types of water transportation. This is inland waterway transportation and sea transportation.

The archipelago containing around 1700 ports and of these, 111 are designated commercial ports, and 25 of those are so-called strategic ports. Four-state-owned outfits control these commercial ports.

Most of Indonesia's non-bulk trade is transhipped through Singapore and Malaysia since Indonesia's ports cannot presently handle large transoceanic vessels. Statistics shows that productivity in mid 2008 was only around 40-45 moves per hour, compared to Singapore's 100-110. This means comparatively long turn-around times, with ships sometimes having to leave to meet schedules before they are fully loaded.

The development of port services for loading and unloading is a very important factor to improve the quality of service and to increase the competitiveness of water transportation in Indonesia. It is potential for improvement when it comes to the workers at the ports. Handling Cranes and trucks are not efficient and improving this part would lead too much shorter turn-around time. There are also major queues to dock. Shipping goods overseas often cost less than sending it within Indonesia.

The government is looking to streamline the number of ports oriented to ocean traffic, while maintaining the port infrastructure. The gradual introduction of the new shipping law 2008, with the intention of increasing the domestic shipping involvement for in-country cargos, is nearing completion; with 100 percent Indonesian-flagged vessels conducting business hubs for these rural services. This will take time, but it is a step in the right direction to encourage domestic investment in the sector. Many experts in this sector have the same understanding that a long-term plan, up to 30 years is what is needed to make the segment more attractive to private investors.

INFRASTRUCTURE

Airport and airlines

Improvement is not only needed in airports in Indonesia, but also in the supporting facilities like roads. Flood often disrupts flights because it is closing roads, and passengers cannot make their flight in time. With 187 airports in Indonesia, only seven have runways over three kilometres in length.

Jakarta's two airports are planned to get a major overhaul, but nothing has yet been decided. It has also been up for discussion to add a third airport in Jakarta. The airport Denpasar International in Bali will get \$182 millions to overhaul, whilst a new Medan airport is under way and will have the capacity of 11 million passengers a year. There is schedule to open a new airport in Lombok that will be able to accommodate long-haul aircraft, and there will be airport expansions for Pontiak and Tarakan.

According to the National Statistical Bureau, during the first four months of 2010, the number of domestic passengers rose 22.9 percent compared to the same period in 2009. The number of international passengers did increase over the same period by 28.2 percent.

Jakarta's international airport (CGK) will have the capacity to handle 38 million passengers a year after the completion of Terminal 3, but passenger numbers are already topping 36.5 million with the government prediction of 10 percent annual growth. Terminal 3 is under expansion and will eventually have five piers and be capable of handling 20 million passengers a year by 2020.

Railway

Little development has taken place over the past years in the railway sector. The sector needs large investments for new lines, and for upgrading some of the existing rail tracks, particularly to provide efficient transportation for the citizens to the large cities, such as Jakarta.

The Government is making efforts improving the railway sector, and during 2008-2010 they launched a revitalization program with a budget of more than \$2 billion to overhaul the existing 4.8 million km of railway network. New railway networks have been planned in areas of Sumatra, East Kalimantan, Sulawesi and Papua, especially to improve transportation of bulky materials, such as coal.

The Law NO23/2007 ended the monopoly of PT KAI as the sole state-owned railway operator. This means that the new law gives opportunities for private sector participation and allowing companies to compete against the state-owned Railway Company.



*Road into Jakarta,
Photo by Daniel Bernstein*

Water and sanitation

Overall there is little progress in the water and sanitation sector. Even though Indonesia is blessed with rainfall in most localities, less than 1 percent is harnessed for use. Of the 1 percent, 89 percent of water supply is directed towards agriculture and the balance to domestic, municipal or industrial use. With the rapid population growth, urbanization and increasing industrialization of java, the supply- demand cycle is rapidly changing and offers considerable planning challenges in the years ahead.

While there are ongoing works targeted towards improving sanitation in rural areas, the overall program for the nation as a whole is well behind the goals set out for the Millennium Development Goals.

Energy

The Indonesian power supply sector has been plagued by logistical problems reflecting weak infrastructure. There has also been lack of investment in the grid distribution and failure to maintain and replace equipment in sub- stations. LNG exports to other destinations are more attractive financially and technically due to the underdeveloped infrastructure in the downstream gas industry. This starves the domestic industry and commerce for energy.

The state-owned company PLN, which has monopoly in the transmission and distribution of electricity, dominates the electricity sector. Approximately 35 percent or 82 million people have never been served by PLN and have little or no access to electricity. With investments from 10\$ to 20\$ billion in small to medium sized power stations, mini hydro stations, and plantation biomass co-generation in the 1MW to 10MW range, will take a large piece of the unfulfilled market in the future.



ARNE BLYSTAD AS
OSLO

CORRUPTION IN INDONESIA

One of the biggest and most sensitive challenges every business will meet when establishing and doing business in a developing country is corruption. It leads to inefficient use and distribution of resources, market inefficiencies, slows down many business processes and leads to an environment where people and companies are not treated fairly, and it makes it hard to predict the entire cost of projects. It is no secret that this is a big issue also when it comes to Indonesia. Ranked as number 110 of 178 in the world by Transparency International, there is much room for improvement.

To evaluate corruption it is essential to understand what it is. Two good pointers will be the definition by Transparency International and that stated by Norwegian law. Transparency International states that corruption is the abuse of entrusted power for private gain. The Norwegian Straffelov states that corruption is to request or receive an improper advantage or to accept an offer thereof in connection with a position, office or assignment.

The perception of corruption may seem clear to many in Norway and the western part of the world. What we often forget is how common corruption is in some other parts of the world. For some people this may be seen as a part of business and everyday life. In Indonesia corruption is endemic – it is a part of all levels of society. This has roots back to Indonesia becoming independent in 1945 (independence recognized) and especially the Suharto era (1967-1998).

When Suharto came to power the government had very limited resources in terms of money. Therefore the people working in the government had very low wages. Suharto then allowed employees to make extra money by “doing extra business” and take money “underneath the table”. Suharto was in power in Indonesia for more than 30 years and these corruptive practices became common practice for all government employees from local traffic officers to the police, the military, the judiciary and top politicians.

Today you still hear of employees getting paid in two envelopes. One with the official salary and another with their share of the “facilitation money” their work group has obtained since the previous salary payment. As the pay in government jobs still is very low in Indonesia, many see corruption as a necessity. The official salary is simply not enough to live a decent life. They will see the “dirty money” as part of their salary and they need it to support their families.

Fighting corruption in Indonesia is a big challenge as it is so well integrated into all parts of society and many might not see it as a problem. Another problem is that many Indonesians do not have the opportunity to fight corruption.

Imagine yourself in the position of a local businessman. You own a small business and are sending in your tax-payments. The tax agent tells you that he will not approve your papers before he gets 200 000 Rupiah (22 dollar) as facilitation payment. If you refuse to pay, your business will face the chance of having to shut down. Your family's only income is derived from your business and if you have to shut it down, your family will be forced to live on the street. What would you do?

To fight corruption might seem like an easy decision to rich Europeans but it might not be as simple to any local Indonesian businessman. Bearing this in mind it is even more important that international companies put in an effort to fight corruption in Indonesia. In contrast to many local small and medium sized businesses, the big international companies have a choice and power to influence the situation. Most western international companies know this and try to use their power to change the corruption situation in Indonesia for the better. We have visited several companies in Jakarta and heard what they have to say about today's levels of corruption.

Paying facilitation money and bribes is common for Indonesian companies. The companies we have talked to openly said that nothing happens in government unless you pay small amounts to grease the machinery, or as they call it, pay cigarette and coffee-money. If you, for example, refuse to pay at the port you will be pushed back constantly and never get your goods on shore, losing thousands of dollars each day. However, as pointed out earlier, the port guard's salary will be sparse and his family might depend on it. The official docking fee is not very high, so with facilitation money and fee added it is still far less expensive to dock in Jakarta than in for example Bergen. The difference is primarily how the money is distributed to the workers. In Norway they get a much better salary and corruption is not an issue, in Indonesia they get paid less and get some money "underneath the table." It is important to note however, that corruption and facilitating money is primarily a problem when dealing with the government or government owned companies. Our sources have confirmed this.

Several of the companies we have talked to have said they have had some trouble claiming money from their debtors. Some do not have the money they owe while others are sneakier. They will have at least some of the money they owe, but will hold it back in order to position themselves for negotiations. They will then suggest that they can pay back the money they owe the lender if he agrees to give them a certain percent "kickbacks." To win you over they might try to convince you that this is the only way you can get any of your money and in some cases it is. If borrowers do not have money for all their creditors they will typically pay those who agree to pay them back.

When setting up a business in Indonesia, you will have to consider using a local agent. For some industries this may be necessary, for others you can choose. Recommendations on whether you should use an agent or not in cases where you can choose differ. Many agents will not hesitate when it comes to paying facilitation money or bribes, and if you want to stay clean you need to do your homework when it comes to engaging with local agents. The hard part is to know if you can trust your agent. Agents are also often used to cover and hide facility payments or bribes. A big international company would never take the risk of paying facilitation directly. An agent will normally "help" the firm to get/confirm a deal or contract. By using an agent to do these unlisted payments, firms can hide these costs behind the cost of having a local agent. This way, they make it look clean in their own records so the internal accountants and auditors can approve them.

Another problem with a corrupt system is judicial safety. It is saying here that "you will never win in court", especially if you are a foreigner. When a clean business refuses to pay bribes and your opponent sticks a big roll of dollar bills in the Judge's pocket, you know you're going to have a hard time winning the case. Therefore it is common for companies in a conflict to agree on a settlement without having to interfere with the judicial system.

Under Norwegian and European law it is illegal for companies to take part in corruption, and the Royal Norwegian Embassy in Jakarta is confident that Norwegian businesses operating in Indonesia are following the laws. The Embassy also expressed its concern that many Norwegian businesses are interested in doing business in Indonesia, but hesitate because they are afraid of corruption and safety issues.

It is easy to find examples of corruption in Indonesia. A famous case is that of Gayus, which really pinpointed the weakness of corruption in the Indonesian system. Gayus was a tax official that was originally convicted of corruption charges and sentenced to imprisonment after billions of Rupiah were found in his bank accounts. Later, his case revealed many other crimes. During his trial he confessed to having helped powerful firms evade taxes, paying prosecutors and police officials, and relieving his stress by leaving his jail cell to watch an international tennis tournament in Bali. In fact he tried to bribe his way out of bribery charges. He left prison 68 times and travelled to Bali, Singapore, Kuala Lumpur and many other places with his family. Gayus claim that he is only a fish in the sea and that he can reveal “the big sharks”. This case is still hot in Indonesia and has damaged the President’s reputation greatly. Hopefully, this case will help Indonesia focus even more on anti-corruption in the future and reveal some even more serious cases for Indonesia to solve.

Though there are many pitfalls concerning corruption, when investing in Indonesia it can be extremely interesting and profitable. The general picture is that it is possible but challenging to do clean business in Indonesia and that Indonesia is getting better every day. Within the last year corruption has become less extensive and less common. From 2008 Indonesia has gone from a ranking as nr 126 amongst 180 to where it is today, being 110 out of 178 countries ranked by Transparency International.

In 2002 the Indonesian government took a big step in the right direction. With support from the World Bank, Indonesia established an autonomous prevention, investigation, and prosecution commission for corruption cases, the Corruption Eradication Commission (KPK). Their work has been progressing and the “Jakarta Post” almost daily reports cases where corrupt politicians and businessmen are being convicted.

In January 2011, the Jakarta media presented a good example of KPK’s successful efforts. They announced that KPK has now detained 19 suspects in a \$US 2.7 million bribery scandal involving the appointment of the Senior Deputy Governor of Bank Indonesia. The Board of Governors is the Indonesian central bank’s highest decision making forum, which determines the country’s monetary policy. The arrested group includes high-level politicians. These were among the 26 suspects named in September 2010 for an earlier bribery scandal that led to the jailing of 4 former politicians. Corruption eradication is still a priority on the President’s agenda.

In December 2010 the Education Ministry announced that anti-corruption would be part of elementary school curriculum and students on all levels are becoming increasingly aware of the downsides of corruption. Many university students are protesting and demanding that an integrity and ethics course is included in their education.

Indonesia is also willing to implement a transparency standard EITI (Extractive Industries Transparency Initiative). The EITI sets a global standard for transparency in oil, gas and mining. If the governance of these resources and the revenue they generate is weak, this might result in poverty, corruption and conflicts. EITI aims to strengthen governance by improving transparency and accountability in the different sectors. EITI requires companies to publish what they pay, and governments to publish what they receive. Indonesia is a candidate country.

This means that Indonesia has made good progress, but it does not meet all of EITI requirements and it therefore has to apply to retain its candidate status for a limited period. In total 33 countries are on their way to implement the EITI including Indonesia and Norway.

It is well accepted that Indonesia's economy is improving. Statistics showing surging exports, a strengthening Rupiah and increased foreign capital inflow are some indicators that verify the country's improvements. Indonesia is undoubtedly attractive to investors because of its plentiful economic resources, a large domestic market and growing consumerism. These positive elements are mitigated by ever-present corruption, as described above. In particular corruption within the legal system (involving Judges, prosecutors, lawyers and police) causes foreign investors to be both very cautious and frustrated while these risks signal a legal uncertainty in doing business throughout the archipelago.

Even though Indonesia is surely on the right track, things are moving slowly. It takes time and tremendous effort to change the way everything is done in a country. Indonesia must move from a state where a few people get all the money to a democracy where money should be distributed equally throughout the population. Indonesia is in a transformation-stage and it is a time-consuming process. It remains to be seen if proper justice is carried out in the recent bribery cases. Many question the guarantees from the government. The critics have emphasized the fact that the Indonesian government does a lot of talking and takes little or no action.

This is very noticeable in the many Indonesian newspapers. A noted columnist with the "Jakarta Globe," Tasa Barley, recently wrote: "After more than a decade of democracy, the government's alleged fight against corruption doesn't seem to be making much progress. In fact, many people believe that things are actually getting worse. When Susilo Bambang Yudhoyono was elected (President) to a second five-year term in 2009, many people had high hopes his government would live up to the promises made during the election campaign.

One of those promises was to fix the corrupt mentality of our government officials. Those hopes have now dried up.

"One thing is for sure, though: I believe our government officials and politicians need to fix their corrupt mentality before they can fix any corruption in the system."

Strong words indeed. But there is a concerted effort to reduce the incidence of corruption. It must be put into perspective and clearly, as one of the major challenges to doing business in Indonesia, it is not insurmountable. Constructive criticism such as this and cases like the Gayus case continue to highlight the problem, and in doing so musters the forces of the many anti-corruption elements of Indonesian society to continue their efforts to improve Indonesia little by little. In fact, it is the free spoken media that lead the difficult fight against corruption in Indonesia

When it comes to corruption and CSR, every company should be careful when distributing their financial support to the communities. In many cases your money will not reach its final destination if you are not careful. For example if your company decides to raise money for a local school you should make sure that the money is not getting stuck at the district education office or in the principal's office. To be sure this does not happen companies should distribute the money as close to the target as possible. One good example from Statoil Indonesia Karama, is what they did when they had to remove fishing floats to map the sea bottom. Instead of giving money to the employers or organizers of the floats, they gave every fisherman a personal check to make sure the money didn't fall in the wrong hands. This is very important and relatively easy to do. It may be somewhat time-consuming, but it is the best way to make sure the money reaches out to the rightful persons. One other problem is that it might be difficult to reach certain remote areas in Indonesia as the infrastructure is not developed.

When doing business there are no shortcuts if you want to stay clean. The businesses we visited all emphasized that to do business in Indonesia you need time and patience. And in some cases you will lose some money and some contracts because your competitor for a contract will pay “under the table,” or someone refuses to give you the contract if you will not give them kickbacks. This is something a clean business should be prepared for. Jotun Indonesia, for example, has a slogan stating: “It is o.k. to walk away from projects if they cannot be won in fair competition”.

In the long run, ethical behaviour and a fight against corruption will pay off. Many companies today are clean and successful in Indonesia. One of the things everyone should prepare for, before meeting the Indonesian government officials, is that they will very often own large businesses and mix business and politics. They will give permits or contracts to the companies and families they have connections with, to make their personal gain as high as possible. One good piece of advice Statoil gave, was to arrange meetings in cooperation with the Royal Norwegian Embassy. This will give the meeting a more formal character and it will be clear that they do not want to discuss the politicians’ personal business agenda.

Another important measure every company should take, is educating all employees to understand why they should never accept corruption. Only by getting everyone to understand why this is important can it be implemented fully into a much better business culture.

Although there are many things that are challenging when doing business in such a corrupt country, it is not impossible and not nearly as hard as it may seem. The most important thing is to be confident of your values and be prepared for the challenges you will meet. It is crucial to know the business culture and to be patient and consistent. If you are well prepared your business will be successful in Indonesia.



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THE LEGAL SYSTEM

Indonesia has had immense growth over the last decade, but unfortunately the legal system has not been able to follow. Corruption is still a big problem within the justice system – including judges, state prosecutors, police officers and lawyers. The problem within this sector is so great that the term “law mafia” has been coined. The legal system makes it harder to be a foreign investor in Indonesia than in other countries. Some investors are so frustrated that they feel that any legal certainty does not exist when doing business in Indonesia.

There are many examples of old laws that have not been removed, but instead they are no longer enforced. In Kalimantan there is an old law introduced by the Dutch East India Company that states that one cannot produce a pressure higher than one bar. This law is of course no longer enforced, but that fact that it still is not removed provides a good example of the difficult legal system in Indonesia.

One of the main issues is the excessive degree of regional autonomy. Some local governments seem to have forgotten that they do not have the jurisdiction to create regulations that conflict with legislation and regulations made higher up.



Unfortunately, the excess of autonomy since the fall of Suharto has created an opportunity for “local kings”. In an attempt to enjoy the fruits of economic activities in their respective areas, they have instead spoiled the investment climate and made it difficult to keep up the investment already there. Today, the Indonesian government is working to regain control over the local laws so they will be more conjoined with the national laws; this is to some extent done through anti corruption work the Indonesian government has started.

One of the best tips one can give to deal with this situation, is to get advice from Norwegian companies that are well established in Indonesia. Jotun Indonesia would be a prime example of a Norwegian company that has been in Indonesia for several years and has experienced the Indonesian business life in all of its aspects.

Another good piece of advice we picked up during our time in Indonesia was to hire several lawyers to look at your case separately and then counter the different lawyers’ statements against each other. This greatly improves your chances of getting the correct advice. One should also be aware of that despite all the universities in Indonesia, only a handful of the universities meet the international requirements regarding their legal departments.

*Jakarta is an exciting mix between big and small, old and new.
Photo by Daniel Bernstein*

NATURAL DISASTERS

Indonesia has a very unique and challenging location as it is located on the so-called “Ring of Fire” at the meeting point of several tectonic plates. As a result of this, volcanoes erupting over time mainly build the Indonesian islands. Many of these volcanoes are still active today and are therefore closely monitored by geologists, volcanologists and government. The fact that these volcanoes are still active has been clearly evidenced through several eruptions in the last couple of years. The latest of these eruptions was at the Merapi volcano near Yogyakarta in January 2011. This led to several fatalities and damaged the infrastructure greatly in the surrounding areas. Other volcanoes that have had eruptions in previous years are Krakatau, between Java and Sumatra, and Sinabung on Sumatra.

A big volcano eruption can have major impact on business, as was clearly shown when the Eyjafjallajökull volcano erupted in 2010 and paralyzed most of the airplane traffic in major parts of Europe. When having a company located in Indonesia you can never fully protect yourself from an eruption like this. However you can do many things to prevent the negative consequences an eruption could have on your business. For example, you may want to locate your factory or office as far away from the most active volcanoes as possible. This way, rocks or ash coming from a volcano will not directly damage your locations. As for indirect consequences, like a temporary stop in airplane delivery, you can have a backup plan with delivery by ship from Singapore.

Another effect of the geological position of Indonesia on the tectonic edge, is that earthquakes occur regularly. In 2010, there were three earthquakes over 7.2 on the Richter scale. The highest of these measured 7.8. All of these occurred on Sumatra. In previous years, earthquakes, most of them following the lines of the tectonic plate subduction, have shaken other parts of Indonesia. Luckily, modern technology gives a variety of things to minimize damage to buildings.

Most new buildings in areas that are often exposed to earthquakes are designed to withstand strong earthquakes. When locating an office or a factory in Indonesia, you should thoroughly investigate your buildings specifications concerning earthquake security. Beside these precautions it is recommended to locate buildings away from the most exposed areas. In every building there should be detailed plans of escape routes and training and courses in how to react in case of an earthquake. This means having some food and drink available, and that your workers know the best places to be in case of an earthquake. Such places are generally underneath a strong table or, if this is not possible, near a structural column but not in the vicinity of windows.

One of the most dangerous places to be is in a staircase as this is generally the weakest structure in every building. To give people more time to prepare for earthquakes you can get a seismometer that measures movements of the earth and gives you some additional time in case of an earthquake.

One of the most dangerous side effects an earthquake is the possibility for a tsunami. Tsunamis can occur after earthquakes if a lot of water is thrown towards land by the moving tectonic plates. The devastating power of tsunamis became clear on 26th of December 2004, when a huge tsunami hit many places in South East Asia including Indonesia and Thailand, killing hundreds of thousands of people and wiping out big areas of property. Also, recently there have been tsunamis after earthquakes that have taken several lives in Indonesia. None of these tsunamis have been as large as the one in 2004. However, the danger of tsunamis is easy to avoid for companies. Being located away from the shore and on higher ground, you will avoid the tsunamis’ devastating power. Tsunamis are also more likely to occur in the western part of Indonesia, so using ports which are not directly in harm’s way of a potential tsunami will reduce the chance of closed ports and a stop in supply.



Destructions caused by the volcano Merapi erupting
Photo by Daniel Bernstein

Flooding is unfortunately a big problem in many places in Indonesia. After heavy rainfall, rivers may break their banks and flood huge areas on the flat surrounds. In the big cities there is no good system for coping with the massive amounts of water that gathers in low-lying areas. This is an important factor when locating offices and factories. In their old locations, Jotun Indonesia's production site was regularly flooded. This can have a great impact on company morale and be very costly. Jotun Indonesia now has a new location which is in a higher lying area and is therefore more protected against flooding. Flooding can also make it difficult for vehicles to move in their normal routes and at a normal speed through the city. The toll roads are more protected against flooding than smaller local roads.

TERROR AND SECURITY

Indonesia has in the last years had a few terrorist attacks. These have been directed towards American and Australian targets. The bombing in Bali in 2002 and at the J.W. Marriott and Ritz-Carlton hotels in 2009 in Jakarta are the most well known. The fact that these terrorist attacks have been specifically directed towards American and Australian installations gives companies from other nations some safety. However, there have also been some terrorist attacks aiming for Indonesian targets, like the 2000 bombing of Jakarta Stock Exchange. By choosing non-American or non-Australian hotels and conference centres for your business you will avoid some of the risk. For instance, Statoil Indonesia Karama has its visitors stay at non-American hotels and always arrange conferences at such hotels.

There is also a growing awareness of security at most hotels and other western places. All cars are checked and pedestrians must go through a metal detector where their bags are also checked before they are allowed entry. The government has also worked actively to prevent new terrorist attacks. After the Bali bombing in 2002, a new counter-terrorism squad was established, called Detachment 88, which is part of the Indonesian National Police. The squad rum has had considerable success against the jihad terrorist cells linked to the Islamist movement Jemaah Islamiya. J.I., as it is known, is an Indonesia-based clandestine terrorist network formed in the early 1990s to establish an Islamic state encompassing southern Thailand, Malaysia, Singapore, Indonesia, Brunei, and the southern Philippines.

Only months after the 2002 Bali bombing, many of those responsible for planning the attack were apprehended. Many of them were executed by a firing squad in 2008. The counter terrorist squad has also in other operations arrested and killed known terrorists.

Most companies we have talked to consider the threat of terrorism to be low, but they are aware of it and take whatever precautions they can. This means that they, as in any other corporate buildings in Indonesia, control who is entering the building. They will check bags and cars of visitors to reveal explosives and weapons that can be used to carry out a terrorist attack.

In addition to the security precautions at the office, many companies also have a policy that all expatriates working in Indonesia must have guards at their home. However, many of the workers we spoke to did not feel that it was necessary to have these guards. They only had guards because their employers had such a policy. This tells a lot about the general safety level in Indonesia. Except for a moderately higher possibility of terrorist attack than some European countries, bear in mind the London and Madrid bombings; the general safety level in Indonesia is high.

SUCCESS STORIES

JOTUN

Jotun Indonesia was established in 1985 within protective and marine paint. They started selling products from their own production facilities in 2000 and have experienced rapid growth since 2006. With their six branch offices around Indonesia, they have come to establish themselves as the number one in Indonesia within the marine and protective coating market, each with a market share of more than 30 percent. Jotun has managed to achieve more than 34 percent sales increase every year since 2005 and are planning to continue this trend with an annual sales increase of 30 percent.

They have of course met several challenges on their way to success. Staying true to their values (loyalty, care, respect and boldness) has made them face challenges in a professional way. The biggest challenge for businesses trying to operate in Indonesia is corruption. Jotun has experienced many situations dealing with this issue. The most common situation is kickbacks to the customer's employees.

Jotun follows the saying "It is ok to walk away from projects if it cannot be won in fair competition". This has helped them to succeed in Indonesia. Their strong beliefs in playing fair and their ability to leave contracts that can't be achieved without using corruption, has given them a lot of respect. This strength has enabled them to reach the strong position they hold today.

Their way of fighting corruption is education. They teach employees how to deal with corruptive issues and that participating in such deals are not accepted. As corruption has been a part of the everyday life ever since the colonization, the Indonesian workers don't necessarily see it as a problem.

By teaching them not to contribute to corruption they have built an environment where everyone is strongly aware of the non-corruption policies. To remember what is legal or not, they have designed a "decision-making model card" where all things that are unacceptable to Jotun as a company are listed.

Jotun's leadership team is equal when it comes to the number of women and men, with the exception of two extraordinary positions for which they have retained their seniors who helped establish the company in Indonesia. They have been a tremendous resource for Jotun as long as the company has been in the country, with all of their relations and market knowledge, being highly respected.

Jotun is by far exceeding the CSR requirements set by both the Norwegian ministry of foreign affairs and the Indonesian government. Their salary level is much higher than the industry standard and they are continuously working with HSE. They have also initiated an enormous program concerning benefits to the employees and the support of the local community. Liters of paint are given out regularly to schools and mosques with painters provided, financial support is given to a choir for blind people, donations are paid to earthquake-affected areas and prizes are given to all the employees' kids who achieve the "best-in-class" status. These are some examples of their charity work. To facilitate safe driving, high quality helmets are also provided for all bikers at Jotun.

Jotun's story proves it is possible for a Norwegian company to be very successful in Indonesia. And that it is possible to do good business in third world country and at the same time take good care of your employees and the local community.



The IB group on their visit to Jotun
Photos by Daniel Bernstein



DNV, or PT Denvegraha as the Indonesia section is called, was established with one expatriate manager and two surveyors for maritime activities in 1993. After the financial crisis in 1998 the expat manager had to be evacuated and the unit was run with a skeleton staff. With Indonesia fully stable by early 2000 and prospects of growth apparent, DNV again focused its attention to Indonesia and an expat manager was sent in 2002/2004. Since then this unit of DNV has grown to 21 permanent employees with 3 additional temporary employees. Denvegraha is now a well-established firm with offices in Jakarta and Batam.

Denvegraha has a good size portfolio of companies who are using their services in the Maritime, Oil and Gas and certifications fields. They have also been involved in the WHO certification of Medical Research Laboratories in Indonesia. As DNV and Denvegraha are non-profit companies, the focus is not only on making as much money as possible, but to contribute to the industry by sharing best international practices in safety and risk management amongst others. Denvegraha's success can therefore not only be measured by how much surplus they generate. Operating within good business ethics and trying to help companies managing risk to avoid accidents is the essential part of their success.

In their work in Indonesia, Denvegraha, as any other company, have met several challenges on their path. How do you deal with companies offering bribes to make sure you pass a ship that is not good enough to meet the DNV standards for certificating ships? It does not have to be big errors before you can get offers of bribes. Even small things that are not essential to get a certificate but should be improved can lead to bribes. Denvegrahas inspectors have had several offerings of bribes to neglect problem areas/accept sub standard repairs.

In these cases Denvegraha has refused to do inspections for that company and eventually those ships left DNV certification. Denvegraha is proud that its local Indonesian employees have shown high integrity and the training done by DNV has borne fruit.

In most countries, DNV use one inspector for surveys and inspections but in Indonesia based on the customer, type and age of vessels they use two. The use of two inspectors has two main reasons.

First of all, many Indonesian companies are not concerned with quality and maintenance. This makes inspection here very complex, extensive and time consuming since there are so many problem areas that has to be addressed. To do these types of inspections alone would simply take too long. Furthermore, it is much easier to avoid facilitating money when there are two inspectors on a job. Yet another precaution Denvegraha takes when doing inspections with certain owners/sub standard vessels in Indonesia, is that they try to have one foreigner, for example from Singapore, when inspecting Indonesian interest. This is because it is much more difficult for an Indonesian to be harsh against other Indonesians than it is for a foreigner. You will also get fewer offers of bribes.

According to Denvegraha, these precautions has been very effective and is probably one of the reasons for their success. The work Denvegraha does is also a factor to avoid corruption and bribes. Denvegraha is often hired by a third part like banks or insurance companies to check ships and other installations these companies have interests in. Denvegraha is dependent on a good reputation. If they are linked to bribery or any form of corruption their certificates will not be of any value to their customers, the insurance companies and financial banks.

By sticking to their strict standards for certifications and walking away from any signs of bribes to get certificates, Denvergaha has built a strong brand in Indonesia and the business is steadily growing. Again, in all fairness to the Indonesian market, there are a lot of good operators who believe in Quality and are international players of repute, so quality, ethical challenges are not an issue with every job they do. Over the years the “difficult” customers portfolio has reduced and those who believe in Quality has increased. The effect of their anti-bribe work is that they are now only approached by businesses that believe in the same values and quality standards Denvegraha stands for.

STATOIL

When Statoil started in Indonesia they did so in cooperation with Conoco Philips, which was already well established in the Indonesian market. Before going into the country they made a thorough stakeholder analysis. Statoil is still in the startup face in Indonesia. They have invested heavily in preparations to drill after oil, and are soon ready to begin drilling on deep-water locations in the Kuma and Karama blocks. The Statoil organisation in Indonesia today consists of 35 employees. The main objective for the months and years to come is to expand the search for oil and gas. This can partly be done in cooperation with Pertamina, the Indonesian state owned oil and gas company. Corruption is still a challenge when doing business in Indonesia. Statoil has taken several precautions. They have to be cautious since they follow both American and Norwegian laws regarding corruption. Statoil will soon also be bound to follow new and even stricter UK laws.

To avoid being subjected for corruption Statoil has used the Norwegian embassy to have a neutral part in some of the negotiations. This is to avoid mixing politics and business, which is often done in Indonesia. Another smart thing Statoil has done in Indonesia is to strongly support Indonesia implementing the Extractive Industries Transparency Initiative. The EITI is that all the extractive industries (oil, gas, and mining) companies publish what they pay and by with makes all payments transparent. The EITI is implemented in several countries where Statoil operate with positive results, and Norway is also following the process as Indonesia to become an EITI country

One specific example of how Statoil has avoided the chance of corruption, is when they had to remove fishing installations for some months when they were acquiring seismic data. They established an agreement to compensate each one of the fishermen directly instead of paying to a local spokesperson or government. This was done public with local authorities present and in a transparent and documented way.

Through stakeholder analysis, being always aware of the corruption issues and by training all of the employees, Statoil is able to operate in a clean way in Indonesia. Even though Statoil is not making any money in Indonesia yet, they have achieved a lot. They have licenses for promising places to drill for oil and gas and have established a well-known name which has a good reputation in Indonesia.

STAKEHOLDER ANALYSIS

In a rapidly globalising, knowledge-based economy, sources of value creation in business are no doubt shifting from tangible assets such as land and equipment, to intangibles such as intellectual, human and social capital. Modern management theory therefore espouses that relationships between a company, its employees and other stakeholders constitutes an important and often undervalued business asset. The business value of good stakeholder relationships is therefore critical to the success of the company.

Companies should therefore consider:

- (a) Under what conditions, and through which pathways, do stakeholder relationships create business value?
- (b) What are the essential attributes of an organisation that facilitate the creation of positive stakeholder relationships?
- (c) What measures are most useful in assessing the quality of stakeholder relationships?

To answer these questions it is necessary to define “stakeholder.” A stakeholder is defined as :
”A group which affects and/or is affected by the company” Freeman (1984.) Other wider definitions of the term refer to a corporate stakeholder as a person, group, organisation, or system, which affects or can be affected by an organisation’s actions. The consumer stakeholder is likewise referred to as a person or a group, which has an interest in a business or an organisation. Dowling (2002) has divided stakeholders into four different groups; normative groups, functional groups, diffuse groups and customer groups.

Normative groups can regulate and limit the company’s activities. That can be the government, regulatory agencies, trade associations, stockholders and boards of directors, for instance WTO, APEC, ASEAN and G-20. Functional groups affect many of the everyday activities of a business. These are employees, unions, suppliers, distributors and service providers, for instance INBC, the Royal Norwegian Embassy and the UN Partnership for Development.

Diffuse groups are interested in the company because they want to protect other human rights. These can be journalists, community members and special interest groups, for instance: the Indonesian Environmental Forum (WALHI), the Catholic Church of Jayapura, and the International NGO Forum on Indonesian Development (INFID). Each of these stakeholders were involved in human rights breaches perpetrated by Indonesia’s largest copper and gold miner, P.T. Freeport Indonesia.

Customer groups are divided into a separate group because they make a really important group based on vastly different segments. Irrespective of the analysis seeking to answer the above questions (outside the scope of this report), progressive companies should be aware of the value of positive stakeholder relationships and the resultant competitive advantage.

Firstly, the failure to establish and nurture good stakeholder relationships creates risk and thus shareholder dissatisfaction. Secondly, innovation requires a strong link between employees, the supply chain and business alliance partners. Thirdly, a dense network of relationships provides the company with resources and information necessary for the development of new market opportunities. Fourthly, quality relationships are the source of good reputation, which, in turn, creates better business opportunities.

Advocacy stakeholders can provide the necessary positive value to the company on the one hand, and critical stakeholders can damage the reputation – and consequently sales revenue – of a company deemed to have bad business practices. According to Tor Fjæran, President of Statoil Indonesia Karama, the most important tool before entering the market in Indonesia, is to do a stakeholder analysis to be able to get a complete overview of the stakeholder’s interests. It is therefore evident that a strong stakeholder relationship can give a company the competitive benefits of good profitability and thus shareholder satisfaction.



Old ruins from a king's grave, on Samosir Island, North Sumatra. Photo by Janam Vettivel

Flower on Bali. Photo by Daniel Bernstein



PART 3: WORKING AND LIVING



Batak grave on Sumatra. Photo by Janam Vettivel

In this part we will go through some of the most important practical issues related in living and working in Indonesia. As most of the business activity is based in Jakarta this section is mainly about practical problems and solutions that are typical for the Jakarta area. The information provided here is based on personal experience and the knowledge of expatriates who have lived in Jakarta for many years.

BUSINESS CULTURE

For someone wanting to do business in Indonesia, it is important to understand the Indonesian business culture and workplace values.

Indonesian business characteristics are based firmly on the classic, Asian values of respect for hierarchy. Avoid middle-ranking employees from your company interfacing with the top-level managers from the Indonesian organisation. Be also aware that time is elastic in Indonesia. Meetings will often start late or finish late. In Indonesia time is not important – the relationship is the key issue

Relationships

Initial meetings can often be dominated by small talk, which has little, if anything to do with core business matter. These introductory sessions can be an essential part of the relationship-building process and should not be rushed or viewed as inconsequential. It is during these sessions that the whole basis for future co-operation is made. It is therefore wise to accept invitations to weddings and birthday parties, as it is considered rude to reject and may disrupt relationships.

Gifts

Gift giving in Indonesia has been an issue as the country have a reputation for corruption reaching from the highest levels of government, down to petty bureaucrats and department managers. Although, giving of small gifts to help develop and maintain business relationships are an Indonesian custom. The key to avoid corruption is to give small, corporate-type gifts. The gift should always be wrapped, and do not expect that it will be opened in front of you. Be also aware of the Muslim sensitivities towards alcohol, pork and being touched by the left hand.

Gifts are not usually exchanged during the first meeting, but can be offered at subsequent events. If offered a gift, accept reluctantly and with humility.

Dress code

For doing business, the dress code is similar to what you find elsewhere in Europe and the rest of the world. For work you are expected to wear a shirt and dark pants/skirt. Many workers also use grey or khaki pants instead of black pants. This varies from place to place and for different positions in the company. However, if you are in a manager position you are expected to wear a full suit. For networking events, the invitation will tell you to dress casually. Most men wear black pants and a shirt and women wear a dress or skirt to or slightly above the knee with a shirt or blouse. The place of the event will often give you a clue whether it is expected to dress in a more formal way even if the invitations says dress casual. If the event is hosted in an upscale hotel you can expect it to be more formal than an event hosted at a local restaurant. Some invitations specify lounge suit or batik and occasionally a further option of national dress is offered.

Business card

Business cards are very important and should be handed out before a meeting. Have as much information as possible on your business card. This way, your business associate can see which senior people who are present. When receiving cards, take their card with your right hand and after studying it carefully, place it in your wallet or on the desk in front of you.

Does:

- Be patient when dealing with bureaucracies.
- Show respect to the elder.
- Be calm, and avoid any show of emotion.
- Give the encounter his silence.

Don'ts:

- Openly disagree
- Create a situation where a contact might lose face.
- Assume that yes means yes.



Two sides of Indonesian business: Above the Jakarta skyline. Below: Workers in rice-production on Java. Photos by Daniel Bernstein



GENERAL PRACTICAL KNOWLEDGE

Due to the fact that Indonesia in the last couple of years has been struck by natural disasters, it is recommended that you register at your Embassy. Through your Embassy you will get important information in the case of an emergency. For Norwegians the official website where you can register and find other important information is: <http://www.norway.or.id/>.

Vaccinations and mosquitoes

In any tropical country there are illnesses that we are unfamiliar with in Europe. The Norwegian Institute of Public Health has a list of vaccinations you should have before you travel to Indonesia. Depending on the type of travel, you can find what is recommended for your stay. The most common vaccinations to take before going to Indonesia are Hepatitis A, Polio, Typhoid, Tetanus and Diphtheria. Malaria is also present in Indonesia though there is almost no malaria in the big cities due to the high level of pollution. One mosquito carrier that is present in the cities is Dengue fever. This illness cannot be prevented by any medicine so you will have to protect yourself from being stung by mosquitoes by using mosquito repellent cream or spray. How many mosquitoes are present in the cities varies a lot from place to place and in the different weather seasons.

When first coming to Indonesia, many people will find themselves having some stomach problems. It will normally take a few months to fully adjust to the new bacterial flora. Even after this you may experience some problems occasionally.

Visa

There are three types of visa you can get in Indonesia. For tourists you can get visas on arrival in the biggest airports and seaports. You can see the full list of ports able to provide visas on arrival on the Indonesians Embassy's website. Tourist visas are valid for 30 days. These are single entry visas and cost 25 US dollars or the similar amount in other currencies. On this visa you cannot participate in any meetings or conferences. If you are planning on having meetings you will need a business visit visa. These are valid for 3 months with multi-entry possibility. This visa can be applied for at any Indonesian Embassy and can be issued several times. If you have to stay longer you can combine applying for a new visa with a long weekend out of the country, for instance in Singapore.

If you are going to work in Indonesia for longer periods you can get a working visa. This will normally last for one year. To get a business visa you will need a letter of recommendation from your office in Indonesia. When you need to renew your visa you have to go to the immigration office. There is normally a long queue, but a local agent can get you through faster for a small fee if you have all your papers ready and in order. There are strict regulations about how long your passport must be valid to get a work permit.

These rules and more about how to get a visa and what's needed you should visit: <http://indonesia-oslo.no/temporary-stay-visa/> or <http://www.expat.or.id/info/docs.html>

Visa application forms can be found at: <http://www.indonesia-slo.no/images/visa%20form.pdf>

Dress code for everyday clothing

As Indonesia is the largest Muslim country in the world, many people may worry about rules or norms for clothing. In contrast to other Muslim countries like Iran or Pakistan, the dress code is much less strict. The Norwegian Ministry of Foreign Affairs recommends that shoulders and navel are covered. There is no need to cover your hair with a scarf or cover your legs and arms fully in most parts of the country.

However, the dress code varies greatly amongst the different regions. Sumatra is more influenced by the Middle East and here women dress more conservatively with traditional Muslim clothing. In Aceh they have implemented Sharia law so here you must follow the conservative Muslim rules for clothing. In Jakarta, most people you see on the street wear a polo shirt or a t-shirt and jeans. Some women cover their hair but not the majority.

Even though the dress code is more or less casual you should keep in mind that you are in a Muslim country and that revealing clothes may be seen as offensive. Bali is different from the rest of Indonesia. The island is Hindu and very influenced by tourism, so here you can wear anything. Bikinis are acceptable for the beach and there is no need to cover up for going out to eat or on trips.

Weather conditions

The weather condition in Indonesia is similar to other tropical areas. The temperature is about 30 degrees Celsius year-round, with a somewhat cooler period during the rainy season, which lasts from October to April, and up to 40 degrees in the summer period. It rains frequently, especially during the wet season but normally it only lasts for an hour or two a day. When it rains, the sky opens and water often floods the streets for several hours before the draining system manages to cope with all the water. The humidity is very high and can get up to 95 percent. This makes it hot and humid to go outside, but most places and cars will have air-conditioning.

Personal safety

Personal safety is far better than what you would expect in a country, which has as much poverty as Indonesia. From the moment we arrived Indonesia, people have been telling us that safety is not a big concern. In spite of some terrorist attacks there is not much crime on a personal level. You have to take normal precautions but in daytime you can feel safe walking in most parts of the big cities like Jakarta. Most foreigners have some type of security around their home, but many of those living here do not feel they have to take these types of security measures. People feel safe to walk around town.

As in any big city you should be aware of pick-pockets in crowded areas. Keep a sensible distance from protest gatherings and use common sense. The terrorist threat at the moment is not higher than normal. There are some extremist organisations that have carried out terrorist attacks in the past. These attacks have been directed towards western places frequented mostly by Americans and Australians. As these attacks have not been randomly hitting anywhere, there are several things you can do to minimize the risk of being a victim of terrorist attacks. You can avoid certain risk places for meetings and conferences and you can stay at a non-American hotel.

This means that the most cautions you should take are the same as in any country where terrorism is a risk. Get information about what type of targets have been attacked in the past and stay away to be sure. Furthermore it's more likely to happen where there are big groups of people, rather than in smaller places with fewer people.

TRANSPORTATION

Transportation: taxi, train, bus and private car

As a consequence of the high population in Indonesia, the cities are very big and important places are often located in different areas of the city.

Even if you are only travelling a short distance, few places are facilitated for walking. Mostly there are no sidewalks or they are small and dirty with a lot of holes. Therefore walking is not a good way to get around. This means that you often have to use some type of motorized transportation.

Taxi

For people staying a short period of time, taxi is a good way to get around town. Blue Bird is one of the most recognized taxi companies and they will know where you are going most of the time and always use a meter. Another company in the Blue Bird group is Silver Bird. This is a more expensive alternative to Blue Bird, but it's also more comfortable and the drivers normally have better English skills and a better knowledge of the road system. But at a start rate (flag fall) of 2½ times that of Blue Bird, it's a relatively more expensive option. In Jakarta the start fee (flag fall) is around 5,000 to 6,000 Rupiah (0,5 US dollar) for Blue Bird taxis so this is an inexpensive way of travel. Visitors are cautioned about many other taxi companies, so it is a safe option to use Blue Bird / Silver Bird. Overall, taxi fares are very cheap in Indonesia.

Watch out for traffic jams where travelling a short distance can take hours. This typically occurs in the morning and after work hours. The traffic jam is most severe if it is raining since all the motorbikes take shelter under the bridges, creating a narrow passage for cars. The traffic jams are sadly enough not getting better. By 2014 it is forecasted that Jakarta will be clogged. By then there will be so many cars and motorbikes on the roads that if you line them up bumper to bumper there will be no road space left and no one can move.

Bus

In Jakarta they have opened some bus lines, Trans Jakarta. They run from south to north and are used by many locals. The buses have a separate lane and you will rarely see cars trying to use it, as penalties are high for doing so. In this manner, the bus lanes are well functioning. The buses however are old and often crowded. But there are some newer buses and the bus program in Jakarta is getting better. However, they only go in straight lines from south to north and north to south.

There are no lines crossing the city in the east-west/west-east directions. Therefore it is probably best to have your own car with a driver if you are planning to move often through the city.

Hire a private car

Private cars with a driver are not that expensive. The companies normally provide this for their expatriate employees. Drivers are provided through local companies and can be hired either with a car or you can provide your own car. Norwegians working in Indonesia use both of these solutions. It is highly recommended to stay away from driving yourself. The traffic is chaotic and traffic rules are normally overlooked. Another reason is that local people may be extremely angry if they see that a foreigner has caused or been involved in an accident. There are stories about people being chased and beaten to death because they have been involved in an accident. This will not be a problem if you have an Indonesian driver. A driver without a car will have a wage of around 100 to 150 US dollars per month, not including overtime.



Airplanes and trains

For longer journeys around the country you can choose between train and airplane. As the Indonesian middleclass expands, the flying activity increases and prices fall. As well as lower prices, security and the number of flight departures have been improved and increased in recent years. If booked in advance, round trips can be less than 100 US dollars.

Trains will be cheaper but also takes longer time. They can be a good experience if you want to see more of the countryside. There are several different classes on trains. The higher classes can be booked in advance in a travel agency or at the train station. This secures you a seat and the comfort level will be acceptable. There will also be air-conditioning in the highest classes. The lower classes may be extremely crowded and it is not uncommon that people sit on top of the train roofs. You might want to check with some locals how the situation is on the train



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A flooded road in Jakarta. Photo by Daniel Bernstein

EATING IN INDONESIA

Indonesian food may be unfamiliar to you. It can be very spicy but also sweet as peanut butter. This is often used together with chicken or goat, so-called satay. The spiciest food is found in the western part of Indonesia, the spiciest of all originate from the Padang region. Generally the further east you go the less spicy is the food. In most restaurants you can order dishes less spicy. This normally means they leave out some of the chilli, which is a popular spice. For most Indonesians, beef is expensive and thus fish stands for a big part of Indonesian meals, together with chicken, lamb and goat. The Indonesian kitchen has a great variety of good quality seafood and local fish.

In the big cities, food can be bought everywhere. Small trolleys are found on every street corner serving typical Asian and Indonesian food like fried rice, “nasi goreng”, and fried noodles, “mie goreng”. Both the rice and noodles are mostly served with vegetables and fish or chicken. Make sure that the food is fresh and properly fried, and take the food with you so you don’t end up eating from poorly washed plates. Hygiene of street vendors is very dubious and newcomers to Indonesia are advised not to eat food from these sources.

Many of the smaller islands have their own specialties, like roasted dragonfly on Bali. A safe alternative street food is fruit. Fruit is sold everywhere, both as fresh juice or to be enjoyed unprepared. Indonesia has a great variety of fruits. Bananas come in many different types and mango, papaya and pineapple taste great as they are ripened naturally. Prices on foods vary significantly. Food from the trolleys is very cheap, the same goes for the food in food courts in low and middle class malls. If you go to an upscale mall or restaurant a main dish will cost between 50,000 and 100,000 rupiah (5-10 US dollar).

In western food chains the price will normally be even higher and a main course will cost up to 150,000 rupiah (15 US dollar) In upper class restaurants you can expect to pay at least double that amount.

Western food is available almost everywhere. There are food courts in almost every shopping mall. Here there are normally several different places to order from and almost every mall of good standard will have some western food. In the more expensive malls and shopping areas, the food is well prepared and there are a great variety of both Asian dishes and western food like beef, lasagne and burgers. These more expensive malls are often located near big hotels and the areas are more or less isolated from the surroundings. Here you will find western coffee shops like Starbucks and fine restaurants with delicious food and desserts.

If you want to prepare your own meals at home you can find grocery stores at the big malls. A lot of grocery stores carry western brands and at Carrefour, which has several stores in Jakarta you will find everything, you need. An even more upscale grocery store where they carry more imported brands is Ranch Market. Here you can obtain a customer loyalty card which entitles you to a small discount on certain items.

For a more detailed list of grocery stores with some western products see the Nordic Club Jakarta’s shopping tips.

SHOPPING AND SPARE TIME

Shopping

If you need something for your home the high and middle class shopping malls, like Plaza Indonesia, Grand Indonesia and Plaza Mebel are good places to go. Here you will find almost everything you need gathered in one place. In these malls the price is not as cheap as in local stores but you will be more assured about the quality.

Bargaining on prices is common in Indonesia. Sometimes the sellers will not bargain with you if they have a price tag on the product. However a price tag is no guarantee that you cannot bargain on the price because in most cases you can. In high class malls the prices will be fixed. Be aware that prices may vary a lot if the seller sees that you are new in town.

For a more exciting shopping experience than the upscale shopping malls with most of the same shops as you can find in Europe, you can try Mangga Dua. Here you can get local brands at a low price and cheap copies of famous brands. The place is packed with people so you should be prepared to spend a few hours there. For more information see the Nordic Club Jakarta shopping site.

Free time activities

Most of the big cities have a great variety of free time activities. Besides shopping, the big malls often have facilities like movie theatres, fitness centres, bowling alleys and more. Travelling is cheap so there are great opportunities too see places all over Indonesia like volcanoes outside Jakarta, museums, rainforests, wildlife and much more. For children there is less to do even though most private schools have after class activities like football, swimming and badminton, which is a very popular sport in Indonesia. One big problem for many families with children in different age groups is that you have to drive everywhere and getting children to different places can be a struggle for instance in the Jakarta traffic.



Typical Indonesian food: Mie goreng. Photo by Daniel Bernstein

MOVING TO INDONESIA

FINDING A PLACE TO LIVE

By Indonesian law, foreigners are not allowed to own real estate. Due to this most foreigners rent their home while staying in Indonesia. In the greater part of the country, especially in rural areas, apartments are rare and houses are the best alternative. However, in Jakarta the apartment market is growing and most apartments are built after 1998 and have a good standard.

In the city centre of Jakarta, single-room studio apartments are a popular way of living. The standard and what is included in the rent varies, but most places have cleaning and laundry service. In these types of apartments you will normally find a refrigerator, air-conditioner, broadband Internet and a TV. The rooms are clean and water and electricity is well functioning. Electricity is distributed in 220V and has the same outlet as in Europe. This is a good way to stay for single people. It is an affordable alternative and you can find good apartments close to the financial centre of Jakarta. The prices vary by the standard but it is around 300 US dollars a month. A fence controlled by a security guard ensures security of the residence and its residents.

The disadvantage of this type of apartment is the noise and pollution. This is a big problem in Jakarta, even more so than in other urban cities. Noise could be a problem if you are living close to a busy street full of motorbikes and heavy vehicle traffic, or if you live near one of the city's many Mosques with calls for prayer over large loudspeakers five times a day.

Before engaging in a long term housing contract, make sure that the noise level is acceptable. It is recommended that you inspect the premises you are hoping to rent at local prayer time to assess the noise level. Real estate agents will be reluctant to meet you at the premises at these times, so it is suggested that you be insistent.

If you are going to live in Jakarta with your family, an alternative to living in the city centre is living in a house on the outer edge of the city. Many of the western expatriates living in Jakarta with their families live in the south part of the city, in an area called Selatan. Here houses are more spacious and good for families. Many will have a garden with a swimming pool.

You can also live in planned communities. These are located in the suburbs of Jakarta. Many of the communities are new and more are being built. In these communities, many commute into the heart of Jakarta and the business centres to work. Due to its location outside the city centre, these areas have far better air quality and they may be able to provide better security because they have stricter control of who is allowed inside the protective walls. The gates are guarded by Sat-pam (security guards) which stop traffic entering from surrounding areas. Less traffic ensures safer streets on which children can play. With this entry control you will also have fewer problems with endless streams of vendors and sales people that normally plague households throughout the city.

The planned communities often have recreational facilities for the residents like swimming pools, stores, playgrounds, soccer fields etc. These areas are normally maintained by the estate management and are far cleaner than the rest of the city.



*Entrance to a typical expat house, Jakarta
Photo by Daniel Bernstein*

The easiest and safest way to find a place to live in Jakarta is through an agent. By using an agent you have a better chance of getting a good place when you do not have the time or possibility to go around inspecting different alternatives yourself. A good place to start looking at houses is the website <http://www.rumah123.com/>. An agent will possess knowledge about the housing market and is more likely to find a place that lives up to your expectations. However, all agents take a fee and you could get a cheaper place by bargaining the price directly with the owner if you are on a tight budget. Houses can be found in local newspapers like the Jakarta Post.

The lease is normally for a minimum 1 or 2 years and the rent is paid in advance for the whole or, less commonly, part of the leasing time. In either case, tenants should be aware that at least one year's rental is required to be paid in advance. In addition there is generally a rental bond payable upon both parties signing the lease. The bond is equivalent to one month's rental. Shorter lease periods will be a possibility in some places but the rent will normally be higher than for the 1 or 2 years' leasing contracts. Other costs like Internet and electricity, if not included in the rent, are paid one month in advance.

In the case of house rentals – popular with families having children – utilities such as electricity, water and telephone are paid monthly after receipt of the relevant bill. Tenants should be aware that it is customary not to change the name of the occupant on these utilities bills. Consequently your domestic bills will be in the name of former tenants.

Flooding

A big problem in Jakarta is flooding. After a heavy rainfall large parts of the city may be flooded for a long period of time. In 2007, Jakarta experienced the worst flooding in many years where as much as 60 percent of the city was flooded. In the low-lying parts of east Jakarta, the water levels reached 6 meters. Normally the situation is not that bad, but it's a good idea to live in one of the higher places of Jakarta where flooding is less of a problem.

The already slow going traffic will be even more chaotic after a heavy rainfall which partially floods the roads for a few hours. Even though too much rain can cause you problems, so can too little. Not all buildings are connected to the public water system (PAM). Some are connected to a combination of PAM and wells and some are even only connected to a local well. These wells may dry out during the dry season (April-October). If your house is only connected to a well you should therefore check if the well is deep enough not to dry out.

Drinking water

Another problem with local wells is the higher risk of polluted water. You should never drink the water in Jakarta even if you are connected to the PAM. Bottled water (19 litres bottles) are delivered weekly and water coolers are freely available from white goods and hardware stores.

SCHOOLS

If you are bringing your family and children with you to Indonesia you should not be worried about your children's education. There are many international schools in Indonesia offering all grade levels. You can find good international schools in cities like Batam, Denpasar, Bandung, Surabaya, Semarang, Medan, and many in Jakarta. For example you can find the International Baccalaureate program for elementary schools offered in Batam and Medan and the full IB program in Bali and Surabaya. The internationally recognized education program Cambridge IGCSE (International General Certificate of Secondary Education) is offered in Batam and Denpasar (here also Cambridge curriculum at primary level (CIPP)).

In Jakarta you can find any type of school. Mentioning a few, you can choose between Australian, IGCSE, International Baccalaureate, American, British, New Zealand, Montessori and Christian school curriculums. A more complete (however not a fully comprehensive) list of international schools found in Jakarta and the rest of Indonesia can be found at this website: <http://www.expatriot.or.id/orgs/schools.html#outside>.

Most of the international schools are located on Java as it is the most densely populated island in Indonesia. This is also the country's financial centre.

The choice of educational program is much more limited on for example Sumatra and Kalimantan. The prices vary both between the schools and between the different grade levels. To give an example of prices the cost of a place at Kindergarten to Grade 5 at the Jakarta International School is 17,800 US dollars plus an annual capital cost of 4,000 US dollars per year. For high school the cost is 20,500 US dollars plus the capital cost of 4,000 US dollars.



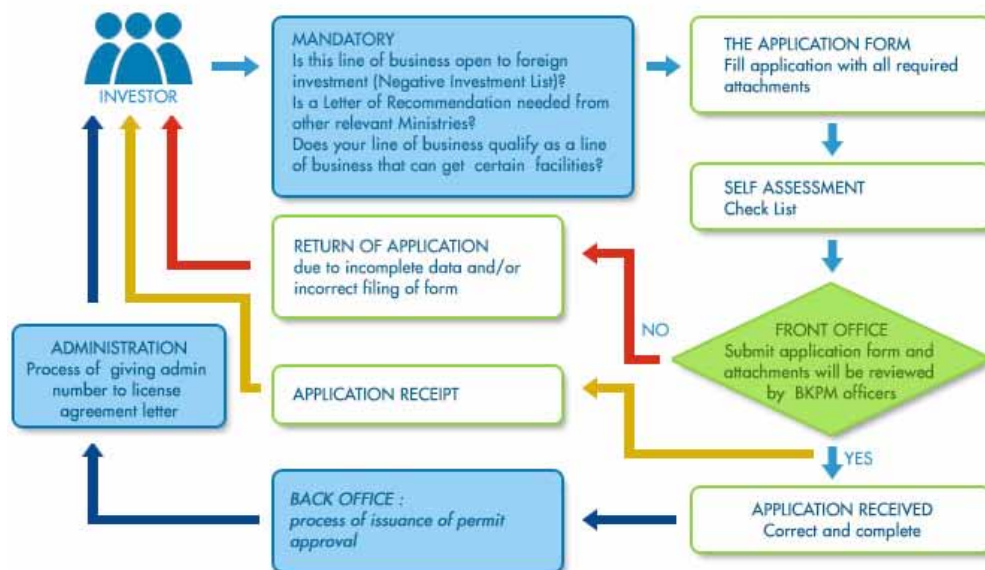
*Garden view of the National Museum, Jakarta
photo by Daniel Bernstein*

APPENDIX 1: HOW TO REGISTER A COMPANY

Application process.

Attachments required to be submitted with applications:

1. Letter of recommendation from the related country or letter which is issued by the Embassy/ Representative Office of the related country in Indonesia if the applicant is The Government of another country;
2. Copy of valid passport if the applicant is a foreign individual;
3. Copy of Articles of Association of the company in English or its translations in Bahasa from sworn translator if the applicant is a foreign company;
4. Copy of valid Identity Card (KTP) if the applicant is an Indonesian individual;
5. Copy of Articles of Establishment of the company and any amendment (s) and approval from the Minister of Law and Human Rights if the applicant is incorporated under the law of Republic of Indonesia;
6. Copy of Tax Registration Code Number (NPWP) for the applicant, either for Indonesian individual or company which is incorporated under the law of the Republic of Indonesia;
7. This application should be properly and duly signed with sufficient stamp duty by all applicants (if the company is not yet incorporated) or by the company's Board of Directors (if the company is already incorporated) attached with Power of Attorney with sufficient stamp duty from whom signs and/or submits the application if the applicant is represented by another party (provisions concerning the Power of Attorney is strictly regulated in this regulation (article 63).



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Personal experience

*Old batak-style house, Tombok, North Sumatra
Photo by Janam Vettivel*



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OUR SPONSORS

The International Business project is fully financed by sponsorships. We would therefore like to give a special thanks to our sponsors that made this project possible through their contributions.

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SPECIAL THANKS TO

Adji Sujianto - Frontpage

Arne Hatten

Bjørn Bakke

Danish Business Association Indonesia and its members

Denvegraha (DNV)

Ditta Triwidianti - Medco Energy Power

European Chamber of Commerce Indonesia

H.E. Eivind Homme

Henry

Indonesia Norway Business Council (INBC)

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INTSOK

Jotun Indonesia

Lennart Stockman

Makmur

Micael Ohlsson

Pawan Sahni

Peter Vaughn

PWC

Samudera Sukses

SSM Shipping

Statoil Indonesia, Karama

The Royal Norwegian Embassy in Jakarta

Tor Fjæran

Øystein Andersen

We greatly appreciate your contributions to our project.

We would not have been able to do it without you

Peter Vaughn

A special thanks to Peter Vaughn at INBC. Without your help our report would not have been the same. Your engagement in the project has been clear from the first time we contacted you. Your commitment to helping us write a truthful and accurate report has been very inspiring to us. You have helped us get in contact with the right people and arrange meetings we would not have managed to set up on our own. You have guided us through our studies in Indonesia, generously shared your knowledge about Indonesian history and given us valuable insights on doing business and living in Indonesia. Again, we could never have done this without you! Thank you so much! Or as you would say it: TAKK TUSEN!

IB INDONESIA 2010/2011, in collaboration with:



Bergen Næringsråd

Bergen Chamber of Commerce and Industry

Christan, but batak-styled, grave, North Sumatra. Photo by Marie H. Johansen



PREVIOUS PROJECTS

COUNTRY	YEAR
Singapore	1984/1985
Brazil	1985/1986
Australia	1986/1987
Italy	1987/1988
China	1988/1989
Thailand	1989/1990
Russia and the Baltic States	1990/1991
Portugal	1991/1992
Mexico	1992/1993
Hungary	1993/1994
Chile	1994/1995
South Africa	1995/1996
India	1996/1997
Indonesia	1997/1998
The Baltic States	1998/1999
Brazil	1999/2000
South Korea	2000/2001
Poland	2001/2002
Turkey	2002/2003
Russia	2003/2004
China	2004/2005
India	2005/2006
Brazil	2006/2007
Vietnam	2007/2008
Malaysia	2008/2009
Mexico	2009/2010



International Business Indonesia 2010/2011 was carried out by students from:



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