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# AN INTRODUCTION TO Doing Business in Indonesia 2023





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This edition of Doing Business in Indonesia was produced by a team of professionals at Dezan Shira & Associates, with Ayman Falak as Editor.  
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## DEZAN SHIRA & ASSOCIATES

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## About Dezan Shira & Associates

At Dezan Shira & Associates, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam, as well as liaison offices in Italy, Germany and the United States, and partner firms across the ASEAN region. With over 30 years of on-the-ground experience and a large team of professional advisers, we are your reliable partner in Asia.

# Preface

After gaining independence in 1945, Indonesia experienced rapid industrialization during the 1970s on the back of strong oil exports before labor-intensive industries became the new engine of growth in the late 1980s. The country is now the largest economy in Southeast Asia with a US\$1.38 trillion economy by nominal GDP, and a member of the G20.

Indonesia's most important export commodities are oil and gas, palm oil, minerals, such as tin, gold, nickel, copper, bauxite, as well as coal. However, the country is moving away from exporting raw minerals to developing its own downstream industries which is key to the government's economic growth strategy. For 2023, Indonesia is expected to see between 4.5-5.3 percent growth supported by growth in commodities, infrastructure, tourism, and manufacturing of high-value products like electric vehicle batteries.

The government of Joko Widodo remains prudent about its macroeconomic policies and structural reforms to attract foreign investment. Infrastructure is still the cornerstone of the government's policies, with Indonesia needing over US\$400 billion of infrastructure financing until 2024.

Other important considerations for foreign investors are Indonesia's ongoing amendments to various laws to remove bureaucratic inefficiencies, simplify business licensing requirements, and liberalize more industries. An example is Government Regulation in Lieu of Law No. 2 Year 2022.

Consequently, for investors and firms seeking to do business in Indonesia, it is important to have a long-term outlook. After all, with a population of close to 300 million, a competitive labor market, a rapidly expanding digital economy, and rising incomes, it is not a market to be taken lightly.

This publication, designed to introduce the fundamentals of investing in Indonesia, was compiled by Dezan Shira & Associates, a specialist foreign direct investment practice providing corporate establishment, audit, business advisory, tax advisory and compliance, accounting, payroll, due diligence, and financial review services to multinationals and small- and medium- sized enterprises investing in emerging Asia.

An Introduction to Doing Business in Indonesia 2023 covers the following:

- Indonesia's Positive Investment List
- Corporate establishment;
- Taxation;
- Human resources and payroll; and
- Audit and compliance.



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# Highlights from the guide

Government Regulation in Lieu of Law No. 2 of 2022 is Indonesia's biggest attempt at bureaucratic reforms since independence.

The Law amends more than 75 current laws that aims to simplify the process to obtain business licenses and starting a business, formalizing special economic zones, and amending the country's strict labor laws. Further, Indonesia has liberalized emerging sectors of interest for foreign investors, such as construction, healthcare, and telecommunications, among others.

In this guide, we review the important changes that will impact foreign businesses looking to invest in Indonesia.

Below are some of the key changes foreign businesses need to aware of.

## Business licensing regime

Indonesia has now introduced a new business licensing regime whereby business licenses are issued based on the assessment of 'business risk level', determined by the scale of hazards a business can potentially create.

The business activities undertaken by the applicant company will be classified into one of the following risk-level types:

- Low-risk businesses;
- Medium-low risk businesses;
- Medium-high risk businesses; and
- High-risk businesses.

## Positive investment list

Under the Law, Indonesia has liberalized over 245 business lines, including important sectors, such as transportation, energy, and telecommunications. The general principle under the positive investment list is that a business sector is open to 100 percent foreign investment unless it is subjected to a specific type of limitation.

As such, the government has classified business fields into four categories.

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





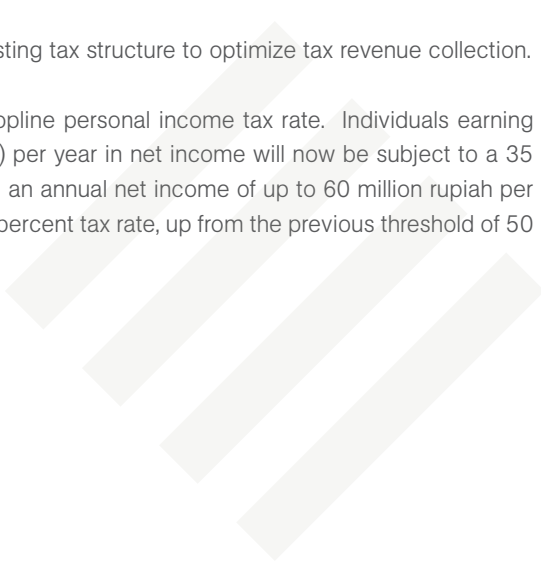
## Labor laws

The Law has amended Indonesia's labor laws. Changes include a formula for calculating the minimum wage, eliminating sectoral minimum wages, introducing provisions for hourly wages (for the first time), and income support for workers made redundant. Further, a new procedure for the disbursement of severance payments has been established.

## Tax overhaul

The government has overhauled the existing tax structure to optimize tax revenue collection.

The overhaul includes changes in the topline personal income tax rate. Individuals earning more than 5 billion rupiah (US\$351, 000) per year in net income will now be subject to a 35 percent income tax, and individuals with an annual net income of up to 60 million rupiah per year (US\$4,220) will be subject to a five percent tax rate, up from the previous threshold of 50 million rupiah (US\$3,517).



# Sectors to Watch for in Indonesia in 2023

Indonesia's central bank, Bank Indonesia, predicts that the country's economy is expected to grow at between 4.5-5.3 percent in 2023 – one of the highest among G20 members – and will be supported by several important sectors, including commodities, infrastructure development, tourism, and manufacturing of high-value products, such as electric vehicle batteries.

GDP had accelerated to 5.31 percent in 2022, bringing Southeast Asia's largest economy back to pre-pandemic growth. The pace of growth in 2022 was largely supported by Indonesia's large domestic consumption and further bolstered by the export of commodities as global prices of key shipments, such as coal, palm oil, and iron, rallied upwards.

The highest priority for the Indonesian government for 2023 will be to hold inflation at three percent. Further, weakening global economic activity and a slowdown in commodity prices could impact GDP this year. However, external demand for commodities and pent-up domestic consumption will continue to be the backbone of growth in 2023.

## Downstream mining

As Southeast Asia's largest economy, Indonesia has enjoyed an exports boom on the back of rising commodity prices caused by the Russian-Ukraine conflict. As such, Indonesia's commodity exports will continue to be a backbone to the economy in 2023.


In 2014, the Indonesia government began banning the export of raw mineral ores to encourage foreign investments in the downstream mining sector and development of local smelters besides boosting exports of higher-value processed commodities as well as increasing government revenue. For 2023, the country is set to expand the raw mineral export ban to include bauxite.

Indonesia has a large and unprospected variety of mineral deposits and is the world's biggest exporter of tin, palm oil, and thermal coal, as well as a major exporter of nickel, copper, bauxite, rubber, manganese, zinc, and lead, among other resources. Mining roughly accounts for over one-tenth of Indonesia's GDP and has been integral to its economic growth.

The country is also home to the Grasberg mine – one of the biggest gold mines, and third-largest copper mine in the world – which is estimated to have 275 billion ounces of copper and 14.2 million troy ounces of gold reserves.

### Nickel

Indonesia announced a ban on the export of nickel ores in 2019 and introduced a requirement for nickel miners to process or purify raw nickel in Indonesia before export. The country is home to the world's largest nickel reserves and its ban caused major shifts in the supply chains of electric vehicle makers and stainless-steel producers. Nickel is a major component of EV batteries and of stainless-steel.



Indonesia's exports of processed nickel have soared from US\$1 billion in 2015 to US\$30 billion in 2022 with the country expected to account for half the global production increase in nickel up to 2025.

The ban on nickel ores prompted the European Union to launch a complaint to the World Trade Organization (WTO) in 2019 who argued that Indonesia's ban was unfairly harming the EU's stainless-steel industry. In November 2022, the WTO ruled in favor of the EU, citing that Jakarta's ban was not in line with global trade rules. Indonesia has appealed the ruling.

The WTO ruling poses a direct challenge to Indonesia's desire to ensure its mineral raw materials are processed domestically. The government has not announced its next strategy if it loses the appeal, but has not ruled out implementing a heavy tax on nickel raw exports as one initiative.

#### ***Electric vehicle batteries supply chain***

Indonesia's nickel reserves are making the country indispensable to the global EV industry with the country aiming to be a global EV hub. Global EV makers, which include US's Tesla and China's BYD, are said to be finalizing deals to invest in Indonesia, according to the country's Coordinating Minister for Maritime Affairs and Investment, Luhut Binsar Pandjaitan. Indonesia aims to be one of the top three producers of EV batteries in the world by 2027.

Moreover, to complement its nickel-based battery industry, the country is also developing lithium refineries and anode material productions facilities.

With its 278 million population, Indonesia also presents opportunities for the sale of EV vehicles ranging from motorbikes to cars. Formidable challenges and opportunities for investors include consumer affordability and the lack of public charging infrastructure. The government has an ambitious target of having 2.5 million EV users by 2025.


#### **Coal**

Indonesia is the world's third-largest exporter of coal after China and India and the world's biggest thermal coal exporter. Indonesia produced 687 million tons of coal in 2022 of which 494 million tons was exported and the remainder for domestic use. Coal exports earn the country roughly US\$3 billion per month with China, India, South Korea, and Japan accounting for 70 percent of exports. Vietnam and the Philippines are growing export markets for Indonesian coal.

The government left the thermal coal market in a volatile state in January 2022 when it issued an export ban to meet domestic demand. The ban displaced an estimated four percent of the global seaborne supply or 36 million tons of coal.

For 2023, the country is targeting a record 518 million tons of exports and production at 695 million tons.





As with other commodities, the government is eager to develop Indonesia's downstream coal industry, specifically surrounding the below seven subsectors:

1. Coal liquefaction;
2. Coal quality enhancement;
3. Coal gasification;
4. Coke manufacturing;
5. Underground coal gasification;
6. Briquette manufacturing;
7. Coal-water mixture production.

This strategy will need immense foreign investment, particularly in infrastructure and technology.

## Infrastructure

Infrastructure development has been the cornerstone of President Joko Widodo's government for most of the past decade. During eight years of his tenure, his government has built 1,700km of highway, over 4,000km of non-highway roads, 30 reservoirs, 18 ports, and 21 airports, with most developed outside the island of Java. To take this into perspective, Indonesia had only 780km of highway for the past 40 years.

Between 2022 and 2024, Indonesia requires over US\$400 billion for infrastructure investments. Specifically for 2023, the government has set aside US\$25 billion in the national budget for infrastructure.


As such, Indonesia is pushing for private involvement in its infrastructure development through private-public partnership (PPP) initiatives. There are also opportunities for small and large-scale energy and infrastructure projects in Indonesia's eastern regions, which is lacking the most in connectivity and is seeing increased focused from the government (Java currently constitutes 60 percent of total GDP and 60 percent of the population).

## Healthcare and pharmaceuticals

Given its large market size, Indonesia's healthcare sector presents a lucrative opportunity for foreign investors.

The government's annual spending on healthcare has skyrocketed since the implementation of the universal healthcare program (BPJS) in 2014, which has now grown to be the world's largest, covering some 240 million people. Every citizen and expatriate are mandated to join, and companies must register their employees to the program, paying a percentage of the premiums.

Increasing spending on healthcare will impact important sub-sectors, such as the medical devices industry, which was valued at US\$4.5 billion in 2019. The majority of this, US\$2.8 billion,



was from imports. Indonesia mainly imports sophisticated medical instruments, such as PET-CT scanners and ICU equipment, and exports low-tech equipment, such as gloves and syringes.

The pharmaceutical industry is dominated by generic drugs (70 percent) with the remainder from over the counter (OTC) drugs. The BPJS program has boosted sales of generic drugs in the country, valued at more than US\$700 million.

## Tourism

Indonesia has set an ambitious target of up to 7.4 million tourists for 2023, generating some US\$5 billion for the country. This is still not at the pre-pandemic levels of 16 million foreign visitors.

However, the sector will have its challenges in 2023.

Despite all countries lifting their COVID-19 travel policies, the threat of a global recession, high air fares, and inflation are impacting consumer spending behavior.

The country's tourism ministry has opened the sector to foreign investment for developing sustainable-based tourism projects, five priority tourist destinations, and eight special economic zones catered to tourism. The ministry also highlighted that these opportunities were valued at US\$1.5 billion in total and would create 1.5 million new jobs.

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