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**MARKET FOCUS**

**Investing in Indonesia**

*By Puay Yong Juay*

Rising energy and commodity prices have been dominating the headlines. As an optimist, I try to look for the elusive silver lining, even amidst news about growing global economic uncertainty. I think that silver lining has picked to stay in Indonesia for now.



**Growing Trade and Investment**

Indonesia has shown resilience despite weakening external economic conditions. In the first quarter of 2008, Indonesia's gross domestic product (GDP) growth hit 6.3%<sup>1</sup> and its exports climbed to US\$34.4 billion<sup>2</sup>. In fact, over the last two years growth in commodity prices have:

- Lifted total GDP by 2%;
- Contributed 40% of the 40-fold increase in current account surplus;
- Grew oil and gas net export values by 60%; and
- Helped food net exports reach \$8 billion in 2007.

Southeast Asia's largest and most resource-rich economy, Indonesia has been gaining the attention of foreign investors. Foreign direct investments (FDI) soared by 73% to US\$10.3 billion in 2007<sup>3</sup> and is expected to continue growing despite the credit crunch.

The need to secure supplies in the face of soaring commodity prices has got prominent Asian companies such as India's Tata Power, China's Guohua Electric Power Corporation and Japan's Mitsubishi queuing to invest in Indonesia's natural resources.

**Rising Foreign Investor Confidence**

To increase foreign investor confidence the Indonesian government passed the 2007 Investment Law, creating incentives for foreign investors that include:

- Equal treatment for domestic and foreign investors;
- Protection against nationalisation of investment;
- Easier transference of assets; and
- Easier repatriation of capital.

On 1 July 2008, Indonesia signed the Japanese-Indonesia Economic Partnership Agreement (JIEPA), which will raise the competitiveness of Indonesia's exports as tariff rates fall.

Given such developments, it's no wonder that Indonesia is now ranked as the fourth most attractive FDI destination.

**Challenges Ahead**

Although investment opportunities in Indonesia seem attractive, it is wise to consider certain issues before jumping aboard.

Global commodity inflation has raised Indonesia's trade value, but it could also put a damper on financing investment projects and managing overall business-related costs. While laws have been passed to enhance business environment and processes, implementation will continue to lag behind.

In addition, the Global Competitive Index ranked poor infrastructure, complex regulatory environment, corruption and lack of transparency amongst the top obstacles that investors will face when doing business in Indonesia. Other challenges include:

- Power shortages;
- Increased social unrest due to public discontent about fuel and food price hikes; and
- Upcoming elections in 2009, which can result in hesitation on the part of investors.

Lessons learnt from companies that have successfully ventured into Indonesia point to the fact that one must always conduct local market research beforehand.

Best still, it is highly advisable for companies to seek professional support from experts that are familiar with on-the-ground issues to help them navigate the complex business environment.

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