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INVEST

FOREIGN DIRECT INVESTMENT

According to UNCTAD's [World Investment Report 2023](#), FDI flows to Indonesia totalled USD 21.9 billion in 2022, up by 4% compared to the previous year, making the country the seventeenth-largest recipient worldwide. In the same year, the total stock of FDI was estimated at USD 262.9 billion, around 19.9% of Indonesia's GDP. According to data from the Indonesian Investment Coordinating Board, in 2023, Indonesia attracted a total of USD 47.34 billion in FDI (excluding investment in financial and oil and gas sectors), marking a notable 13.7% increase compared to the previous year. The base metal industry emerged as the top recipient, securing USD 11.8 billion, while mining ranked fourth with USD 4.7 billion. Additionally, sectors such as warehousing, telecommunications, pharmaceuticals, and pulp and paper also experienced significant FDI inflows. Singapore, China, and Hong Kong stood out as the primary sources of FDI for Indonesia during the same period.

Indonesia's youth demographics, strong domestic demand, stable politics, rich natural resources, and sound macroeconomic policies make it an attractive destination for foreign direct investment. FDI flows to Indonesia have been growing and their base expanded due to resilient economic growth, low public debt and prudent fiscal management. FDI growth is attributed to a series of economic policy packages that have been implemented by the Indonesian government over the last years, mainly focusing on deregulation, law enforcement and business certainty, interest rate tax cuts for exporters, energy tariffs cuts for labour-intensive industries, tax incentives for investment in special economic zones and lowered tax rates on property acquired by local real estate investment trusts. Moreover, Indonesia lowered the minimum equity requirement for foreign investors and abolished the approval requirement for several business transactions involving foreign investors. On the other hand, foreign investors encounter a challenging investment climate in Indonesia due to various factors including restrictive regulations, legal and regulatory uncertainty, economic nationalism, trade protectionism, and vested interests. These obstacles pose significant barriers to investment, impacting the ease of doing business and potentially deterring foreign capital inflows. Indonesia ranks 61st among the 132 economies on the [Global Innovation Index 2023](#) and 53rd out of 184 countries on the [2023 Index of Economic Freedom](#).

Foreign Direct Investment	2020	2021	2022
FDI Inward Flow <i>(million USD)</i>	18,591	21,131	21,968
FDI Stock <i>(million USD)</i>	240,564	259,697	262,920
Number of Greenfield Investments*	64	73	96
Value of Greenfield Investments (million USD)	20,300	8,248	15,016

Source: UNCTAD - Latest available data.

Note: * Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Country Comparison For the Protection of Investors	Indonesia	East Asia & Pacific	United States	Germany
Index of Transaction Transparency*	10.0	5.9	7.0	5.0

Country Comparison For the Protection of Investors	Indonesia	East Asia & Pacific	United States	Germany
Index of Manager's Responsibility**	5.0	5.2	9.0	5.0
Index of Shareholders' Power***	2.0	6.7	9.0	5.0

Source: Doing Business - Latest available data.

Note: *The Greater the Index, the More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. *** The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action.

WHAT TO CONSIDER IF YOU INVEST IN INDONESIA

Strong Points

Advantages for FDI in Indonesia:

- Large population of over 277 million inhabitants, which is a huge internal market for any company wishing to do business there
- Abundant natural resources (timber, fishery resources, oil, natural gas, metals)
- High biodiversity
- Domestic demand is growing, thanks to the development of the middle class.
- The soundness of the banking and financial sectors creates an economic environment favourable to sustainable growth.

Weak Points

Disadvantages for FDI in Indonesia:

- High cost of illegal removals, which can rise to as high as 60%
- World Bank studies show that the legal and economic framework is less effective in Indonesia than in other Asian countries
- Justice and tax and customs administrations are still perceived by the business community as generally corrupt and arbitrary.
- Limited infrastructure; access to the different islands of the archipelago is generally complicated, which increases economic inequalities.
- The great diversity of the population, a high level of unemployment and extreme poverty in some regions exacerbate inter-ethnic tensions and thus weaken the stability of the country.
- The country is spread out on over 6000 inhabited islands, making transport and business management difficult if a company wants to expand beyond the largest island of Java, Sumatra and Borneo.
- China's high dependence on commodity exports increases the risk of the country's economic slowdown.

Government Measures to Motivate or Restrict FDI

Incentives for investment are accessible to all investors, national and foreign. More specifically, these are reductions of duties on imports and equipment goods and additional incentives for export investors and investments made in certain regions. A reduction in corporate income tax in the form of a tax holiday is available to pioneer industries with a capital investment plan of more than IDR100 billion. Companies that are

not entitled to tax holiday may claim a tax allowance, in order to obtain a tax reduction.

Indonesia restricts foreign investment in some sectors through a Negative Investment List. The 2016 Negative Investment List allows greater foreign investments in some sectors, including e-commerce, film, tourism, and logistics. In health care, the 2016 list loosens restrictions on foreign investment in categories such as hospital management services and manufacturing of raw materials for medicines.

In June 2019, the Indonesian government issued GR 45/2019, which sets out a series of tax incentives for businesses that invest in labor intensive industries, training programs, as well as research and development (R&D). Taxpayers investing or expanding in labour-intensive or pioneer industries can benefit from a reduction in net income of 60% of their total investment in the form of tangible assets, comprising any land used for major commercial activities over a certain period. Investors wishing to start apprenticeship programmes or training activities to develop workers on the basis of "certain skills" may obtain a reduction in gross income of up to 200% of the total costs incurred. Taxpayers who engage in R&D initiatives are eligible for a 300 per cent tax reduction in gross income of the total costs incurred.

INVESTMENT OPPORTUNITIES

The Key Sectors of the National Economy

Energy (oil, gas, electricity), agriculture (coffee, palm oil, rubber), mining resources and forestry, the textile and paper industries

High Potential Sectors

Among the sectors with a strong potential for expansion are: telecommunications (especially mobile and infrastructure), transport, energy (oil, gas, electricity), water treatment and engineering, construction, security, the medical and pharmaceutical industries, aeronautics, IT, the chemical industry, retail trade, franchise services.

Privatization Programmes

The State is carrying out a privatisation program in the sectors of telecommunications, energy (gas), banks and transports. The central government of Indonesia has repeatedly announced its intention to universalise access to clean water. To achieve this goal, an estimated 27 million new connections are needed, with a significant investment gap of IDR 274.8 trillion (\$20.8 billion). This is why a privatisation process has been underway since 2017.

Tenders, Projects and Public Procurement

[Tenders Info](#), Tenders in Indonesia

[Asian Development Bank](#), Procurement Plans in Asia

Sectors Where Investment Opportunities Are Fewer

Monopolistic Sectors

Arms manufacturing, alcoholic drinks, concessions for exploiting natural forests, woodcutting companies, growing genetic material, transport services by taxi/bus, small sailing companies, trade services and support services, except large scale retail sales, the wholesale trade, the provision of exhibition and congress services, the provision of certification services, quality, the provision of market research services, the provision of

warehousing services outside sea ports and the provision of after-sales services, radio and television broadcasting, the provision of services, the provision of radio broadcasting services and closed circuit television broadcasting and the audiovisual and written press, and the production of cinema films.

Sectors in Decline

Craftsmanship, insurance (saturated), tourism (linked to the economic climate), tobacco

Finding Assistance For Further Information

Other Useful Resources

[Indonesian Chamber of Commerce and Industry](#)

Doing Business Guides

[Indonesia Commercial Guide \(trade.gov\)](#)

[Investment Climate in Indonesia - US Department of State](#)

[Doing Business in Indonesia 2022, Mazars](#)