Assessment of business potential for the Portuguese industry of Manufacturing Technologies in the Indonesian market

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EXECUTIVE SUMMARY

PRODUTECH – Production Technologies cluster *(Associação para as Tecnologias de Produção Sustentável)* is an initiative promoted by the Portuguese industry of Manufacturing Technologies and comprises companies that develop and commercialize innovative, flexible, and integrated products and/or services addressing competitiveness and sustainability challenges.

Considering the growing need of the Manufacturing Technologies sector to strengthen its internationalisation process, it is pertinent to prepare studies towards evaluating the business potential in new markets, allowing companies in this sector to make decisions on an initial approach to these markets. It is within this framework that the project "PRODUTECH INTERNACIONALIZAÇÃO 2020" was approved under the scope of the Portugal 2020 Collective Actions Support System. The strategic goal of the project is to strengthen business capacity for internationalization, acting on access to new markets, collaborative processes of knowledge sharing, and international promotion of the supply of Manufacturing Technologies. In this context, two international markets relevant due to their recent dynamics were pre-identified: Canada and Indonesia.

To facilitate the access of the Portuguese industry of Manufacturing Technologies to the Indonesian market, *Sociedade Portuguesa de Inovação (SPI)* conducted the study for PRODUTECH to analyse the business landscape and legal framework of Indonesia, aiming at providing relevant information for business internationalisation. This study includes an overview of the Indonesian market and identifies relevant business opportunities in the Indonesian market for Manufacturing Technologies.

The quantitative and qualitative assessment performed in the study resulted in the selection of three sectors with higher internationalization potential for the Portuguese industry of Manufacturing Technologies to access the Indonesian market:

- Leather industry, leather goods, and footwear;
- Rubber industry, rubber goods, and plastic industry;
- Furniture industry.

This selection was based on the characteristics of the different business and industry sectors in Indonesia, as well as by taking into consideration the Portuguese set of competencies in Manufacturing Technologies.

Overall, the study enabled to better understand the context of the Indonesian market and allowed to conclude the following:

- Economic indicators of industrial sectors have been relatively stagnant over the past years. The majority of industrial sectors analysed have been registering negative variations in imports.
- Indonesia has established free trade agreements with other Asian countries, as well as with the USA, which has long been favouring trade with non-EU partners.
- Main trade partners for selected sectors include China, Japan, South Korea, Malaysia, and Thailand in Asia, but also USA and EU countries like Italy, German,y and France.
- The trade market for the leather industry, leather goods, and footwear includes EU partners with very strong positions, demonstrating the openness of the sector to establishing trade relationships with European players, further supporting the investment

of the Portuguese industry of Manufacturing Technologies in this sector within the Indonesian market.

- The rubber industry, rubber goods and plastic industry sector is characterised by an expansion of rubber manufacturers in Indonesia, which may present interesting business opportunities in the near future.
- The furniture industry sector is currently facing several bureaucratic constrains, which are expected to result in limited growth of the sector over the upcoming years.

The study comprises the following chapters:

Chapter 1 – Introduction

This chapter briefly introduces PRODUTECH and presents the context and motivation of the study, as well as the methodology implemented for developing the report.

Chapter 2 – Business opportunities in Indonesia

This chapter provides a quantitative macro-analysis of the Indonesian market with a detailed assessment of market trends, namely industrial turnover, as well as import trends, using different indicators to support the identification of the most relevant industrial sectors.

Chapter 3 – Competitive landscape of the Indonesian market

This chapter addresses in more detail the competitive landscape for the three selected sectors and identifies relevant opportunities for the Portuguese industry of Manufacturing Technologies in the Indonesian market.

Chapter 4 – Constrains to access the Indonesian market

This chapter describes the Indonesian legal framework, highlighting the main steps to be taken into consideration for entering the Indonesian market.

Chapter 5 – Tips and recommendations

This section includes tips and recommendations for entering the Indonesian market, particularly addressing the influence of main local cultural features on business practices and expectations when negotiating with European companies. Herein, an in-depth integration of cultural aspects within business contexts is provided.

Chapter 6 – Conclusions

In this chapter, the main conclusions of the study and recommendations are presented.

Porto, March 2022

Sociedade Portuguesa de Inovação

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List of acronyms and abbreviations

Acronym	In Indonesian	In English
ACFTA	-	ASEAN-People´s Republic of China Comprehensive Economic Cooperation Agreement
AICEP	-	The Portuguese Trade and Investment Agency (*Agência para o Investimento e Comércio Externo de Portugal)*
ASEAN	-	Association of Southeast Asian Nations
BKPM	Badan Koordinasi Penanaman Modal	Indonesian Investment Coordinating Board/ Ministry of Investment
BPS	Badan Pusat Statistik	National Statistic Centre Board
BSN	Badan Standar National	National Standardisation Agency
CCIIP	-	Chamber of Commerce and Industry Indonesia Portugal
CV	Commanditaire vennootschap	Limited partnership
DGCE	-	Directorate-General of Customs and Excise
EC DG Trade	-	European Commission Directorate-General for Trade
GDP	-	Gross Domestic Product
HS	-	Harmonised System
ICC	-	Indonesia International Chambers of Commerce
KADIN	Kamar Dagang dan Industri Indonesia	Indonesian Chambers of Commerce and Industry
Kemendag	Kementrian Perdagangan	Ministry of Trade and Commerce
Kemenkeu	Kementrian Keuangan	Ministry of Finance
Kemenperin	Kemetrian Perindustrian	Ministry of Industry
MENKES	Kementrian Kesehatan	Ministry of Health
MoH	-	Ministry of Health
MoI	-	Ministry of Industry
MoIT	-	Ministry of Industry and Trade
MoT	-	Ministry of Trade
NIK	Nomor Identitas Kepabean	Customs Identification Number
NPWP	Nomor Induk Wajib Pajak	Tax Identification Number (TIN)
OEC	-	Observatory of Economic Complexity
Pusdatin	Pusat Data dan Informasi	The Centre of the Data and the Information (each ministry or board in Indonesia owns a Pusdatin)
PT	Persero Terbatas	Limited Liability Company (LLC)
SIUP	Surat Izin Usaha Perdagangan	Trade Business License
SNI	Standar National Indonesia	Indonesian National Standard
TBK	Terbuka	Public listed company
TIFA	-	Trade and Investment Framework Agreement
TIN	-	Tax Identification Number
UNIDO	-	United Nations Industrial Development Organization

CHAPTER 1

Introduction

1. Introduction

This chapter contextualizes the study by briefly introducing PRODUTECH and its mission and presenting the framework and motivation of the study, as well as the methodology implemented for developing the report.

1.1 Context

PRODUTECH – Production Technologies cluster *(Associação para as Tecnologias de Produção Sustentável)* is an initiative promoted by the Portuguese industry of Manufacturing Technologies and comprises companies that develop and commercialize innovative, flexible, and integrated products and/or services addressing competitiveness and sustainability challenges.

PRODUTECH's mission is to promote the sustainable development and internationalization of the Portuguese industry of Manufacturing Technologies. Emerging in the context of the implementation of collective efficiency strategies aimed at innovation, qualification, and modernization of companies producing and using Manufacturing Technologies, PRODUTECH streamlines cooperation between companies in the sector and between these and other relevant actors, assuming itself as a key partner in strengthening the international competitiveness of the Portuguese economy.

Considering the growing need of the Manufacturing Technologies sector to strengthen its internationalisation process, it is pertinent to prepare studies towards evaluating the business potential in new markets, allowing companies in this sector to make decisions on an initial approach to these markets. It is within this framework that the project "PRODUTECH INTERNACIONALIZAÇÃO 2020" was approved under the scope of the Portugal 2020 Collective Actions Support System. The strategic goal of the project is to strengthen business capacity for internationalization, acting on access to new markets, collaborative processes of knowledge sharing, and international promotion of the supply of Manufacturing Technologies. The development of studies to assess the potential of markets is foreseen as part of activity 1 - "Intelligence and Strategic Information for Internationalization" of the project. In this context, two international markets relevant due to their recent dynamics were pre-identified: Canada and Indonesia.

To facilitate the access of the Portuguese industry of Manufacturing Technologies to the Indonesian market, *Sociedade Portuguesa de Inovação (SPI)* conducted the study for PRODUTECH about the business landscape and legal framework of Indonesia, aiming at providing relevant information for business internationalisation. This study includes an overview of the Indonesian market and identifies relevant business opportunities in the Indonesian market of Manufacturing Technologies.

1.2 Methodology

To develop the report, SPI conducted a set of qualitative and quantitative analysis to better understand the dynamics of the Indonesian market. The methodology included a series of tasks as presented below:

a. Task 1. Macro-economic analysis:

Market trends were analysed based on data from industrial sector growth rates between 2018 and 2021. This period was chosen to review the pre and post-pandemic, since Indonesia was one of the deadliest and worst pandemic countries in 2020 and 2021. As a consequence, it significantly affected Indonesian markets and economic growth in several sectors, especially those requiring high mobility like tourism. All data analysed were collected from the *Badan Pusat Statistik* (BPS) or the Statistic Centre of the government of Indonesia and translated accordingly by Indonesian natives. BPS is a non-departmental government institution in Indonesia that is responsible for conducting statistical surveys. Although BPS works for the government, all data are transparent to the public and can be accessed from their website. Annual surveys include national and provincial socio-economics, manufacturing establishments, population, and the labour force.

b. Task 2. Identification of user sectors with higher potential

Data were collected from the BPS[1], *Kementrian perindustian Indonesia* or the Industrial statistics of Indonesia Republic[2], and Ministry of investment/BKPM[3]. Industrial sectors that use manufacturing technology were analysed according to six economic indicators (sales turnover, export volume, import volume, foreign investment, number of companies, and number of employees).

c. Task 3. Assessment of competitive landscape

Three selected sectors were characterised in more detail. To identify the main companies operating within each sector, information was retrieved from the Ministry of Trade of the Republic of Indonesia[4] by accessing specific reports per sector. Additional detailed information regarding Manufacturing Technologies used was consulted from each company's website, as well as from sector associations. Unless stated otherwise, quantitative data regarding trading partners and imports were accessed through HSTariffStat[5] by consulting World Trade statistics, as well through

[1] Statistics Indonesia Census: https://www.bps.go.id/subject/9/industri-besar-dan-sedang.html#subjekViewTab3
[2] https://www.kemenperin.go.id/dokumen-kinerja
[3] https://www3.bkpm.go.id/
[4] kemendag.go.id
[5] https://hstariffstat.com/

the Open Data Portal of TrendEconomy[6]. For this purpose, a set of codes from the Harmonized System (HS) nomenclature[7] attributed to Manufacturing Technologies, as detailed in Annex 1, were analysed individually.

d. Task 4. Identification of local constraints on access to the Indonesian market

The legal framework was studied by reviewing the main regulation of import goods to Indonesia. In this process, the Portuguese Trade and Investment Agency (*Agência para o Investimento e Comércio Externo de Portugal, AICEP*) was consulted. Information on general regulation was sourced from the European Commission Directorate-General for Trade (DG Trade) official website[8] and the Indonesian Ministry of Industry. The specific regulation refers to the HS nomenclature and was consulted from the official website of the Ministry of Trade of Indonesia. Detailed information regarding the Indonesian regulatory framework and the tariff applied was collected by analysing information related to the set of HS codes attributed to Manufacturing Technologies.

6 TrendEconomy Open Data Portal

7 https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/customs-tariff/harmonized-system-general-information_en

8 trade.ec.europa.eu

CHAPTER 2

Business opportunities in Indonesia

2. Business opportunities in Indonesia

This chapter provides a characterization and quantitative macro-analysis of the Indonesian market with a detailed assessment of market trends, namely industrial turnover, as well as import trends, using different indicators to support the identification of the most relevant industrial sectors.

2.1 Market trends

Indonesia is highly diverse as it is home to 300 ethnic groups and 1,340 tribes alongside the nation, according to the last statistical data in 2020. Moreover, as stated by the World Meters, in 2021 Indonesia is the home country for 273,523,615 people within 34 provinces[9]. This made Indonesia become one of the biggest potential markets for many products. Indeed, according to the World Bank, Indonesia is the 10th largest economy in the terms of purchasing power parity and the country holds the 16th largest economy that presents an alluring potential for investment, with continuous reform initiatives and appealing demographics. Until today, Indonesia is still growing the power of the consumers that is reflected directly within a thriving start-up ecosystem for almost all fields of goods and services.

Nonetheless, the development of Indonesia's industrial sector has been highlighted as a challenge to economic growth. In particular, a recent study identified a need for investment in the manufacturing sector towards enabling industries to remain attractive and actively contribute to economic growth[10].

To better understand the industry dynamics in Indonesia, market trends are herein addressed in more detail. The following sectors are included in the macro-analysis:

- Tobacco processing industry;
- Leather industry, leather goods, and footwear;
- Machinery and equipment industry;
- Food and beverage industry;
- Chemical, pharmaceutical, and traditional medicine industry;
- Furniture industry;
- Paper and paper goods industry, printing and reproduction of media;
- Other processing industries, repair and installation services of machinery and equipment;
- Textile and apparel industry;
- Non-metal mining goods industry;

[9] Data consulted on December 27, 2021. https://www.worldometers.info/world-population/indonesia-population/

[10] Eko Listiyanto and Abdul Manap Pulungan (2021), United Nations Conference on Trade and Development, Indonesia's Macroeconomic and Finance Policy Framework for Structural Transformation. In *South-South Integration and the SDGs: Enhancing Structural Transformation in Key Partner Countries of the Belt and Road Initiative.*

- Wood industry, goods from wood and cork and woven goods from bamboo, rattan, and the like;
- Metal goods industry, computers, electronics, optics, and electrical equipment;
- Transportation equipment industry;
- Rubber industry, rubber goods, and plastic industry.

These industrial sectors were analysed according to the GDP of the Industrial sector turnover between 2018 and the first half of 2021, as shown in Figure 1.

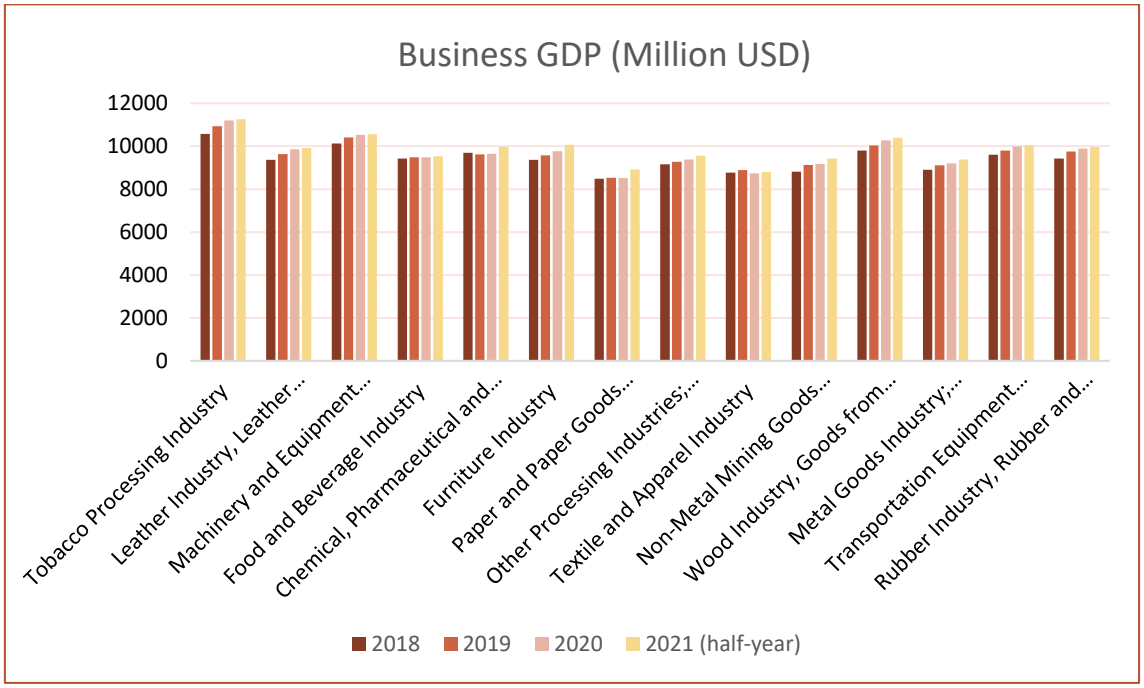


Figure 1. Industrial sector turnover between 2018-2021 (half-year)

Overall, by analysing the cumulative growth of these sectors during the 3.5-year period identified, it is possible to conclude that the following sectors grew the most: Chemical, pharmaceutical, and traditional medicine industry (11%); Metal goods industry, computers, electronics, optics, and electrical equipment (9%); Tobacco processing industry (8%); Other processing industries, repair, and installation services of machinery and equipment (8%); and Machinery and equipment industry (7%).

After this macro-analysis, the following sectors with the most interest in the Manufacturing Technologies sector can be identified and will be further characterised in section 2.3:

- Tobacco processing industry;
- Leather industry, leather goods, and footwear;
- Chemical, pharmaceutical, and traditional medicine industries;

- Metal goods industry, computers, electronics, optics, and electrical equipment;
- Food and beverage industry;
- Paper and paper goods industry; printing and reproduction of recording media;
- Machinery and equipment industry;
- Rubber industry, rubber goods, and plastic industry;
- Furniture Industry.

2.2 Import trends

According to the World Bank, Indonesia's total imports value in 2019 is up to 171,275,708.68 in thousands of USD[11]. As reported in World Top Exports[12], the most popular products to be imported by Indonesia are machinery including computers (US$21.8 billion, 15.4% of total imports); electrical machinery, equipment ($19.1 billion, 13.5%), mineral fuels including oil ($15.8 billion, 11.1%), plastics, plastic articles ($7.2 billion, 5.1%), iron, steel ($6.9 billion, 4.8%), organic chemicals ($5 billion, 3.5%), vehicles ($4.4 billion, 3.1%), cereals ($3 billion, 2.1%), other chemical goods ($3 billion, 2.1%), and food industry waste, animal fodder ($2.9 billion, 2.1%). According to the same source, Indonesia imported an estimated US$141.6 billion worth of goods from around the globe in 2020. Several sectors are indeed being highlighted as the preferable sectors during the last 3 years, namely machinery, food and beverages, and chemical/pharmaceutical. Among the machinery subcategory, the following relevant items were imported in 2020:

- Machinery parts: $1.6 billion (increased 39.3% from 2019)
- Miscellaneous machinery: $1.2 billion (increased 17.7%)
- Piston engine parts: $1 billion (increased 22.2%)
- Liquid pumps and elevators: $980.8 million (decreased by -21%)
- Taps, valves, similar appliances: $969.8 million (increased 11.4%)
- Air or vacuum pumps: $888 million (increased 10.8%)
- Centrifuges, filters and purifiers: $794.4 million (decreased -29.2%)

Indonesia has developed closed and exclusive partnerships with certain countries for market, industry, and export-import that reflect on the particular policy and agreement. This can lead to an extra competitive barrier for other countries, mainly the EU countries, to penetrate in the Indonesian market. According to data collected by Trading Economics, Indonesia´s import partners are dominated by China, Singapore, Japan, the USA, and Malaysia, as represented in Figure 2. Overall, 57% of import activities are conducted by only 5 countries, none of which are

[11] Indonesia Trade Statistics | WITS (worldbank.org)
[12] Indonesia's Top 10 Imports 2020 (worldstopexports.com)

members of the European Union. This results from the existence of exclusive partnerships between Indonesia and these 5 countries. Strikingly, among the EU countries, Germany is the leading country (no. 7) on the list, followed by France (no. 14). This shows how competitive the Indonesian market is, as further detailed in Chapter 3.

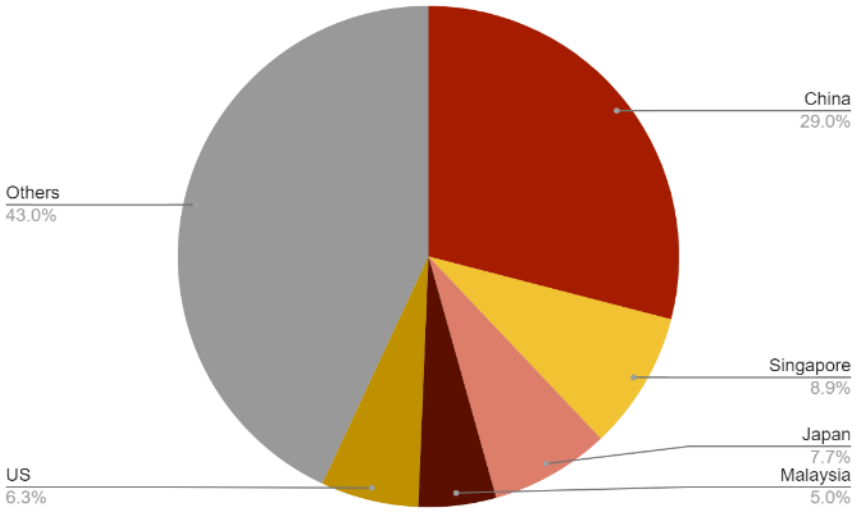


Figure 2. Indonesian import partners, according to Trading Economics

Specifically looking at those 5 major countries, 2 of them are East Asian countries, and 2 of them are Southeast Asian countries. Indonesia is one of the members of the Association of the Southeast Asian Nations (ASEAN) that initiated several free trade agreements, and among others, ASEAN has held a strong economic and trade relationship with China. This reflects the ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement (ACFTA) started in 2002. In consequence, this agreement affects significantly the Indonesian market in general. As for Japan, the Indonesia-Japan Economic Partnership Agreement was signed in 2008 resulting in more than 92% of goods having been subjected to tariff cuts. Additionally, the ASEAN Free Trade was signed in 1992 resulting in more than 99% of goods categories in this trade block currently already tariff-free. As for the Indonesia-US relationship, the U.S.-Indonesia Trade and Investment Framework Agreement (TIFA) was signed in 1996.

These agreements between Indonesia and particular countries could be a big potential competition for EU countries to enter the Indonesian market, as most of them were signed a relatively long time ago and still affect and influence Indonesian import trends today. Moreover, according to the official website of the European Commission DG Trade, Indonesia is not on the list of the Free Trade agreements that the EU signed. This fact may make hesitant any EU countries intending to export to Indonesia due to the high tariff they implemented.

2.3 Most relevant sectors

The sectors with the greatest interest in the Manufacturing Technologies industry identified in section 2.1 are herein analysed according to the following indicators:

- Sales Turnover;
- Export Volume;
- Import Volume;
- Foreign Investment;
- Number (No.) of companies;
- No. of employees.

Figure 3 shows the sales turnover of the nine industrial sectors from 2018 to 2020 in Indonesia. The tobacco processing industry grew the most during these years with a growth rate of 5.80%. This sector is followed by the machinery and equipment industry (2nd, 4.84%), chemical, pharmaceutical, and traditional medicine industries (3rd, 4.32%), leather industry, leather goods, and footwear (4th, 4.04%); and furniture industry (5th, 4.03%).

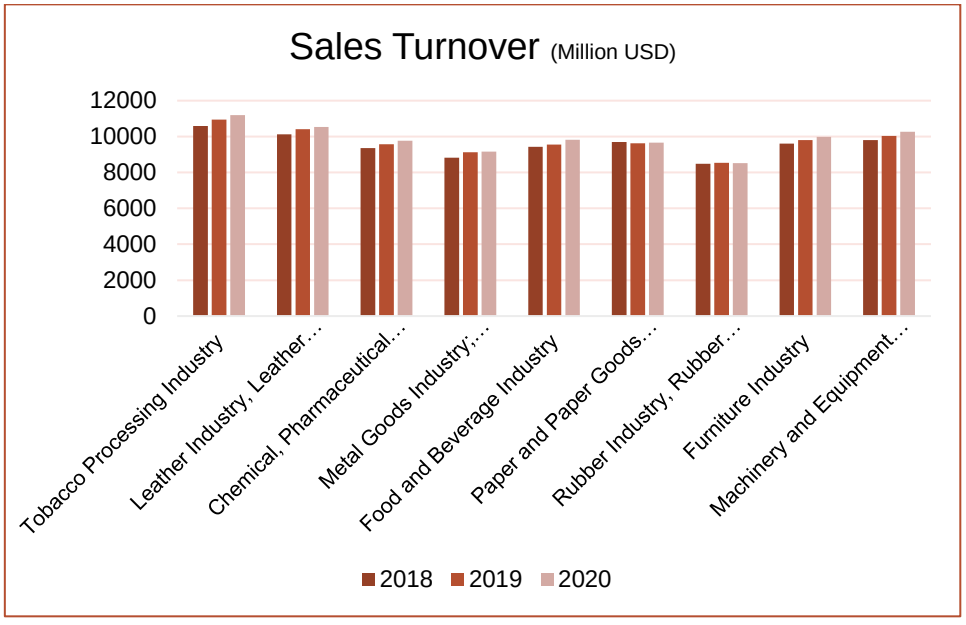
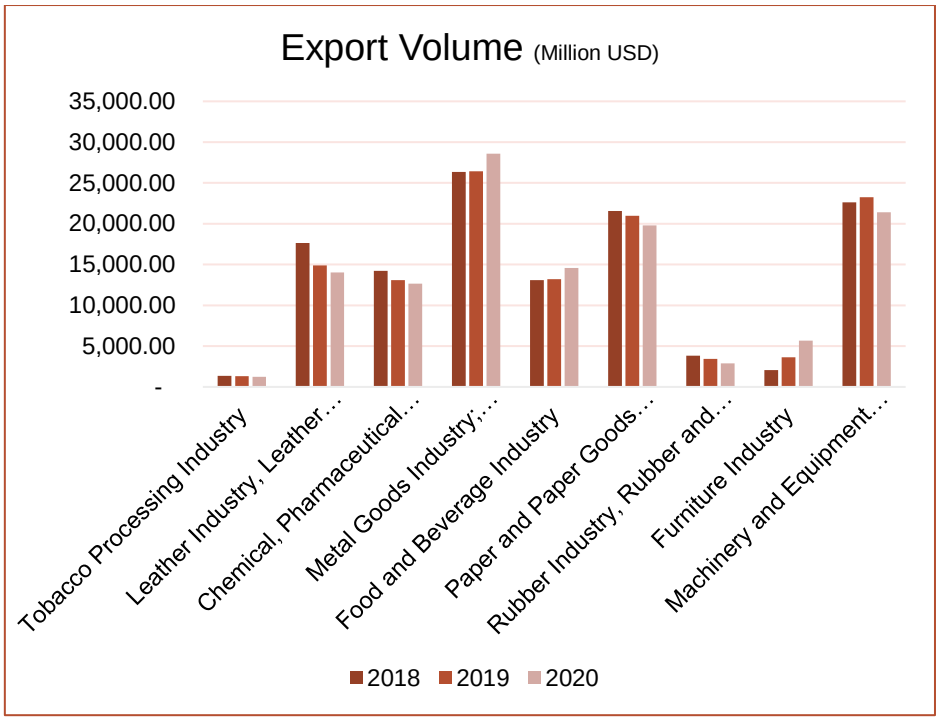


Figure 3. Sales turnover of selected industrial sectors between 2018-2020

Figure 4 depicts the dynamics of export and import volume of the nine industrial sectors from 2018 to 2020 in Indonesia.



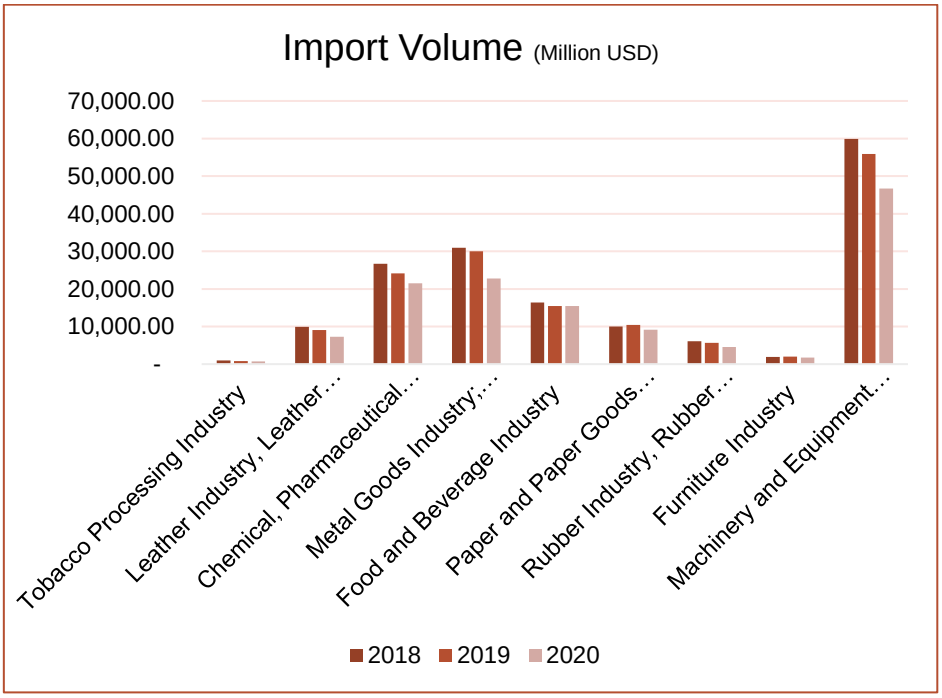


Figure 4. Export volume (top) and import volume (bottom) of selected industrial sectors between 2018-2020

By analysing these two indicators, the following five sectors are highlighted as ranking highest in both exports and imports (2018-2020): metal goods industry, computers, electronics, optics, and electrical equipment (>97% associated with computers, electronics, optics, and electrical equipment); food and beverage industry; machinery and equipment industry; paper and paper

goods industry, printing and reproduction of recording media; and chemical, pharmaceutical and traditional medicine industries. It is worth mentioning that a qualitative analysis of the machinery and equipment industry emphasizes that this sector is primarily based on importing machinery components to Indonesia, where manufacturing equipment is then assembled and sold, and/or exported. Thus, this sector is likely a competing sector to the Portuguese industry of Manufacturing Technologies in the Indonesian market.

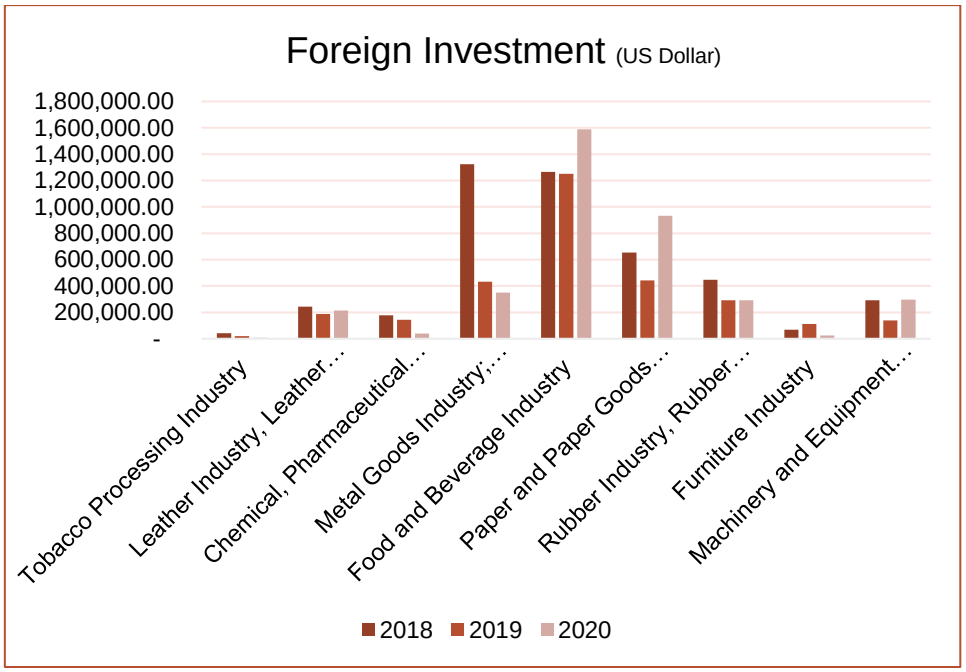


Figure 5. Foreign investment in selected industrial sectors between 2018-2020

As foreign investment is counted as one of the most important factors contributing to the growth of a business sector, it is worth seeing the trend in the Indonesian industrial sectors. The total foreign investment increased by 2,526,935 USD from 2018 to 2020. Although the most significant value of investment comes from the food and beverages industry (reaching 324,458 USD), other industries with increased relevance for the Manufacturing Technologies sector have also seen an increase in investment, namely the paper and paper goods industry, printing and reproduction of recording media (ranked 2nd); as well as leather industry, leather goods and footwear (ranked 4th).

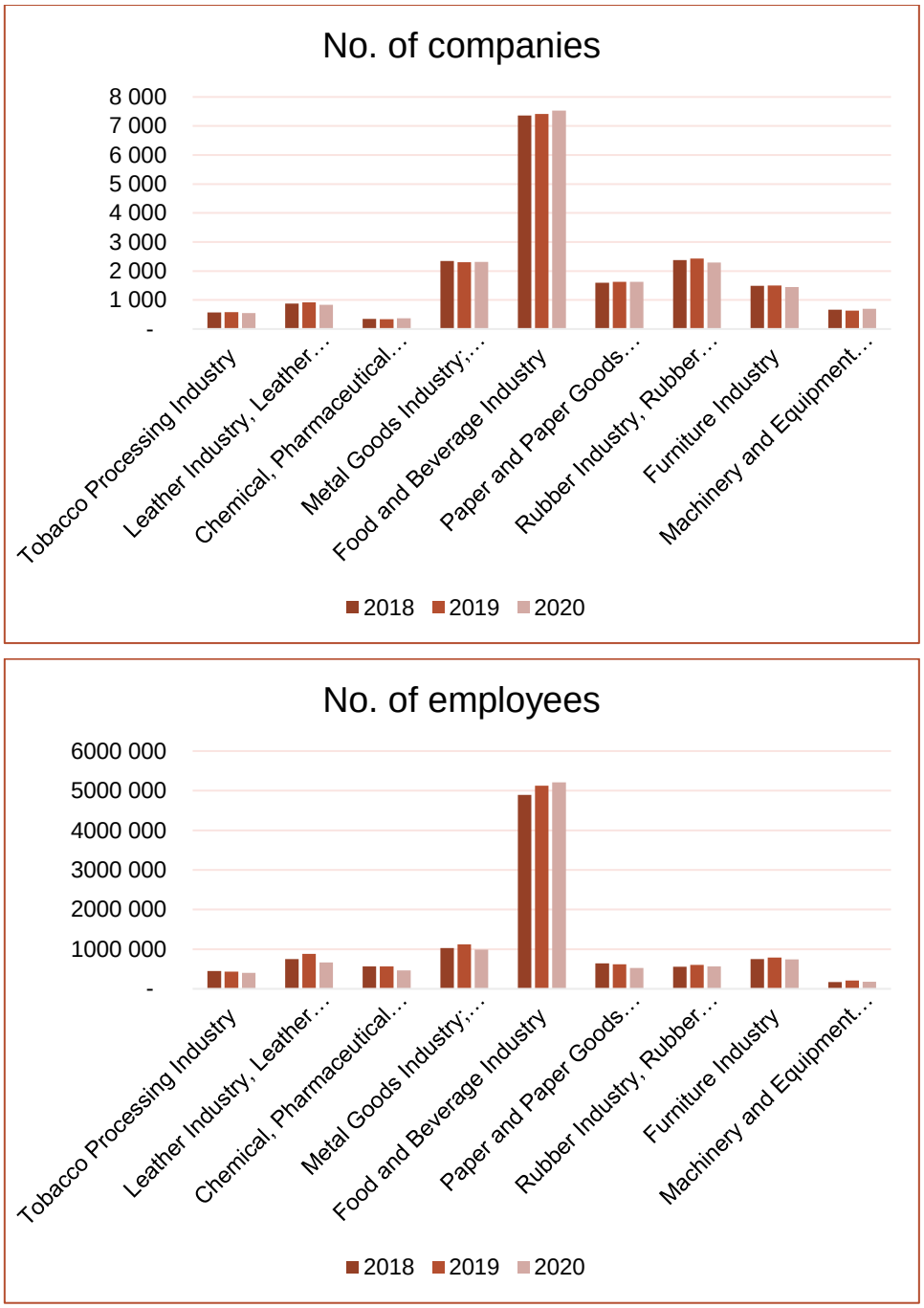


Figure 6. Number of companies (top) and number of employees (bottom) in selected industrial sectors between 2018-2020

As seen in Figure 6, Food and Beverage Industry leads the number of companies and number of employees, which have both been increasing over the 3 years analysed. Nonetheless, other sectors are also worthy of note, including the paper and paper goods industry, printing and reproduction of recording media (ranked 2nd in no. of companies and 4th in no. of employees);

rubber industry, rubber and plastic goods (ranked 5th in both); leather industry, leather goods and footwear (ranked 7th in no. of companies but 3rd in no. of employees).

Taking into consideration this sectorial analysis through a set of six economic indicators, together with the adequacy of current capacity and expertise of the Portuguese industry of Manufacturing Technologies (as also emphasized by PRODUTECH), the following three sectors were selected as most relevant:

- Leather industry, leather goods, and footwear;
- Rubber industry, rubber goods, and plastic industry;
- Furniture Industry.

These industrial sectors are considered most interesting in regards to their potential for internationalisation to the Indonesian market in the short-to-medium term.

CHAPTER 3

Competitive landscape of the Indonesian market

3. Competitive landscape of the Indonesian market

This chapter provides a detailed analysis of competitors and prospective approaches for the three industrial sectors selected in the previous chapter as most relevant in terms of business internationalisation potential for the Portuguese industry of Manufacturing Technologies in Indonesia. Figure 7 shows the geographical distribution of industrial activities for the three sectors selected. These industries are mainly located on the Java Island, representing distinct industrial clusters.

Figure 7. Geographical location of relevant target companies identified for each sector in Indonesia.

3.1 Leather industry, leather goods, and footwear

The leather industry is one of the giant and most important economic sectors in Indonesia[13]. As shown in figure 3 in chapter 2, the leather industry's sales turnover increased between 2018 - 2020. According to the data published by Statista Research Department[14], the gross domestic product of the leather industry, leather goods, and footwear's manufacture in Indonesia from 2014 to 2020 significantly increase. As the very preliminary data in 2020, the GDP of Indonesia from the manufacture of leather industry, leather goods, and footwear was approximately 39.2 trillion Indonesian rupiahs. It indicates that Indonesia recently has become the one of the world's largest manufacturers. In order to strengthen this case, the Ministry of Trade of the Republic of Indonesia

[13] Export News Indonesia, The Ministry of Trade of the Republic of Indonesia, Directorate General of National Export Development. http://djpen.kemendag.go.id/app_frontend/admin/docs/publication/3581548063923.pdf
[14] Statista Research Department, GDP from manufacture of leather, related products, footwear Indonesia 2014-2020. https://www.statista.com/statistics/1018778/indonesia-gdp-manufacture-leather-related-products-footwear/

has paid special attention to this sector in 2018 which is comprehensively stated in the National Industrial Development Master Plan (Rencana Induk Pembangunan Industri Nasional or RIPIN) 2015- 2035, and is stipulated by Government Regulation No. 14 of 2015[15], and making it one of the country's outstanding sectors.

The leather manufacturing process involves the following steps[16]:

1. Pre-Tanning Manufacture
   The preparation of raw leather including: curing, soaking, painting, liming, fleshing, de-liming, bating, pickling, and de-greasing process.

2. Tanning Manufacture
   The chemical manufacturing process of the raw leather including: splitting, shaving

3. Finishing
   The final manufacturing process to ensure the color, remove any defects on the grain surface, and the leather will be ready to proceed becoming consumable goods. The processes include: neutralization, dyeing, fatliquoring, samming setting out, final drying, staking and dry drumming, buffing, brushing.

4. Final Grading and Measurement

5. Consumable goods production
   Production manufacturing process to produce many types of consumable goods, the processes involve cutting, secondary coloring or coating, sewing and etc.

Table 1 includes the business profile and other relevant aspects of the leather industry, leather goods, and footwear sector in Indonesia. A very detailed analysis of this sector in Indonesia can be found elsewhere[17].

[15] Rencana Induk Pembangunan Industri Nasional or RIPIN) 2015- 2035. https://bkti-pii.or.id/downloadables/RIPIN-KTIN.pdf
[16] Application of advanced technologies in managing wastes produced by leather industries—An approach toward zero waste technology. https://www.sciencedirect.com/topics/earth-and-planetary-sciences/leather-industry
[17] Anton Pieper, Prashasti Putri, 2017. 2017-08 No excuses for homework. Working conditions in the Indonesian leather a. footwear sector.pdf (suedwind-institut.de). Study sponsored by the European Union.

Table 1. Leather industry, leather goods, and footwear sector in Indonesia

Main Sub-sectors	Manufacturing Technologies used	Geographical concentration of potential clients	Potential clients	Possible competitors
Manufacturing Fish Leather, Tilapia Leather, Tilapia Crust, Crust Leather process: from raw materials	Cutting manufacture	Java (Yogyakarta), North Sumatra	• PT.[18] Tilapia Leather Art	• Foshan Dafeng Machinery Equipment Co., Ltd. (China) • Dongguan Qianjin Industry And Trade Co., Ltd. (China) • Foshan Xingle Machinery Equipment Co., Ltd. (China) • Yiwu Dingge Trading Co., Ltd. (China) • Tianjin Richpeace AI Co., Ltd. (China) • Wenzhou Liyi Machinery Factory (China)
Manufacturing premium leather shoes[19]	Skin tanning manufacturing Manufacture of finished leather goods	Java (Bandung, Semarang, Sidoarjo)	• PT. Ecco Indonesia • PT. Ara Shoes Indonesia • PT. Mekar Abadi Sentosa • PT. Prima Dinamika Sentosa	
PU-PVC synthetic leather manufacturing, (*e.g.*, gloves, book covers, shuttlecocks, etc.)[20]	Dry processing Casting Direct coating	Java (Bandung)	• PT. SEMPURNA INDAH MULTI NUSANTARA (SIMNU) • PT. Cendana Pertiwi • PT. Mastrotto Indonesia	

The majority of Manufacturing Technologies relevant to this sector are part of the HS Codes of Heading 8451 - *Machinery (other than machines of heading 8450)*, including machinery for washing, cleaning, wringing, drying, ironing, pressing (including fusing presses), bleaching, dyeing, dressing, finishing, coating or impregnating textile yarns, fabrics or made-up textile articles and for applying paste to the base fabric or other support used in the manufacture of floor coverings like linoleum; machines for reeling, unreeling, folding, cutting or pinking textile fabrics; parts thereof). Interestingly, according to the Observatory of Economic Complexity (OEC), Indonesia was the 20th largest importer of textile processing machines in 2019. Among the different commodities under HS code 8451, Indonesia primarily imported items from the following HS codes in 2020: 845129 (Drying machines with dry linen capacity over 10 Kg, 27%), 845180 (Machinery for dressing or finishing textile yarns, fabrics, or other made-up textile articles, 20%), 845190 (Parts of machines for washing, cleaning, wringing, drying, ironing, pressing, bleaching,

[18] PT., Persero Terbatas (Limited Liability Company)
[19] Anton Pieper, Prashasti Putri, 2017. 2017-08 No excuses for homework. Working conditions in the Indonesian leather a. footwear sector.pdf (suedwind-institut.de). Study sponsored by the European Union.
[20] UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO). 2010. Future Trends in the World Leather and Leather Products Industry and Trade. Vienna.
future_trends_in_the_world_leather_and_leather_products_industry_and_trade.pdf (leatherpanel.org)

dyeing, dressing, finishing, coating or impregnating textile yarns, fabrics or made-up textile articles; parts of machines used in the manufacture of linoleum or other floor coverings for applying the paste to the base fabric or other support; parts of machines for reeling, unreeling, folding, cutting or pinking textile fabrics, n.e.s., 16%) and 845140 (Machines for washing, bleaching or dyeing textile yarns, fabrics or made-up textile articles - excl. household or laundry-type washing machines, 14%). Main trade partners include China, as evidenced in Table 1, but also Italy, Germany, Spain, France, the USA, and South Korea, among other less relevant trading markets for this industrial sector[21]. Portugal is also within the list of imports to Indonesia for HS code 845180 (0.45%), as well as for HS code 845130 (2.4%).

Regarding leather machinery (4-digit HS code: 8453; includes machines for preparing, tanning, or working hides, skins, or leather; machines for making or repairing footwear or other articles of hides, skins, or leather), Indonesia was among the top importers in 2019 and primary import origins (2018-2019) were China, South Korea, and Chinese Taipei22.

3.2 Rubber industry, rubber goods, and plastic industry

After Thailand, Indonesia is the world's second-largest exporter of natural rubber[23]. As the natural rubber industry in Indonesia continues to grow, many of the country's leading natural rubber manufacturers have grown to become some of the world's largest rubber suppliers. As a result, various rubber manufacturers in Indonesia are expanding[24]. According to Statista Research Department data, the GDP from rubber manufacturers, rubber products, and plastic products in Indonesia in 2021 was approximately 88.61 trillion Indonesian rupiah, with the majority of its rubber tree cultivation areas concentrated on Sumatra and Java Island[25]. In terms of natural rubber production in Asia Pacific in 2019, Indonesia ranks second after Thailand on the top with 3.45 trillion tons of natural rubber in a year[26].

The four most common rubber manufacturing processes are[27]:

1. Extrusion
2. Latex dipping
3. Molding, including: transfer molding, and injection molding.
4. Calendaring

[21] https://oec.world/en/profile/bilateral-product/textile-processing-machines/reporter/idn (accessed on 30 December 2021)
[22] https://oec.world/en/profile/hs92/leather-machinery
[23] Analysis Rubber Industry Indonesia - Production & Export | Indonesia Investments (indonesia-investments.com)
[24] How Rubber Manufacturers in Indonesia Continue to Thrive in 2018 (bizvibe.com)
[25] Gross domestic product at current market prices from manufactures of rubber and plastic products in Indonesia from 2016 to 2021. https://www.statista.com/statistics/1019182/indonesia-gdp-manufactures-rubber-plastic-products/
[26] Natural rubber production in Asia Pacific in 2019, by country. https://www.statista.com/statistics/681763/asia-pacific-natural-rubber-production-by-country/
[27] https://www.hygenic.com/news/the-4-most-common-rubber-manufacturing-processes.html

Table 2 presents a brief characterisation of the rubber industry, rubber goods, and plastic industry sector in Indonesia, including identification of potential competitors in the sector.

Table 2. Rubber industry, rubber goods and plastic industry sector in Indonesia

Main Sub-sectors	Manufacturing Technologies used	Geographical concentration of potential clients	Potential clients	Possible competitors
Plastic Injection Molding Manufacturers	Injection molding machines which are specialized for heat resistant polymer resin Plastic seed manufacturing (Pre-Treatment Process; Crushing machine, Main washing machine, Dryer, Secondary washing machine, Extrusion; Cutting machine)	Java (Cileungsi, Cimanggis, Cikarang, Malang, Tulungagung)	• Presisi Group (PT Presisi Cileungsi Makmur and PT Presisi Cimanggis Makmur) • PT. Paragon Plastik Indonesia • PT. Kencana Tiara Gemilang • PT. DMC Plastik Indonesia	• Reliable Rubber & Plastic Machinery Co. (USA) • Franklin Miller Inc. (USA) • Jovan Tech PTE LTD (Headquarters in Singapore) • PT. Jovan Technologies (Manufacturer in Indonesia) • Simptek Machinery Ltd. (China) • Zhanjiagang Linghua Machinery Co., Ltd. (China)
Rubber Products Manufacturers	Process manufacturing; Compression molding, vacuum molding, transfer molding, injection molding, injection waste less molding Mixing, slitting, cutting, extrusion	Java (Tangerang, Banten)	• SIP Rubber Indonesia • PT. Herman Industries • PT. Sansho Rubber Indonesia	

The majority of Manufacturing Technologies relevant to this sector are part of the HS Codes of Heading 8479 - *Machines and mechanical appliances having individual functions*. Indonesia's imports for this category reached over 6 billion USD in 2020. Out of these, 97.5% corresponded to items from HS Code 847950 (*Industrial Robots for Multiple Uses*). Here, Japan was the top trading partner (37%), followed by Germany (15%), Italy (7%), France (6%), and the USA (5%). Portugal is also within the list of imports to Indonesia for HS code 847950 (0.23%), as well as for HS code 847920 (Machinery; for the extraction or preparation of animal or fixed vegetable fats or oils, 0.17%).

3.3 Furniture industry

Indonesia has generally been recognised as one of the most important furniture producers in the world. It's teak and rattan commodities are in high demand both domestically and internationally[28]. Despite its natural competitive advantages in terms of raw materials, the furniture industry has been impeded by plenty of bureaucratic hurdles. Among these, the complex regulatory framework made several manufacturers relocate their operations to other countries, like Vietnam. Additionally, furniture manufacturers are required to prove that the wood supply is harvested and sourced legally based on the Timber Legality Verification System (SVLK) scheme[29], which is a time-consuming and costly process. Hence, despite its huge forest-based products, Indonesia is now placed fourth in ASEAN in terms of export value. Table 3 presents a brief characterisation of the furniture industry sector in Indonesia, including identification of potential competitors in the sector.

Table 3. Furniture industry sector in Indonesia

Main Sub-sectors	Manufacturing Technologies used	Geographical concentration of potential clients	Potential clients	Possible competitors
Teak Wood, Aluminium & Synthetic Wicker	Cutting manufacturing For wooden furniture, indoor teak, rattan and natural fibers, classic furniture, outdoor furniture, synthetic rattan, decorative lighting, and craft manufacturing	Central Java (Jepara, Solo)	• CV Republic Furniture • PT. Wisanka	• Beston (Hernan) Machinery Co., Ltd. (China) • Jinan GETE Machinery Equipment Co., Ltd. (China)
Steel Furniture (Interior furniture)	Manufacture furniture, chairs, furniture components, and laminated furniture Construction manufacturing (pressing, banding, and shrinking)	West Java (Cimahi), Jakarta, Cikarang	• PT. Chitose Internasional TBK. • VIVERE Group (PT. Gema Graha Sarana, PT. Vivere Multi Kreasi, PT. Laminatech Kreasi Sarana, PT. Prasetya Gema Mulia)	• AXYZ Automation Co. (UK) • ATA Engineering Processes Limited (ATA Engineering Products Ltd., since 2021, UK)

The majority of Manufacturing Technologies relevant to this sector are as well part of the HS Codes of Heading 8479 - *Machines and mechanical appliances having individual functions*, which were detailed above (section 3.2). Items under HS code 841932 (Dryers for wood, paper pulp, paper, or paperboard) are also related to the Furniture industry sector and Indonesia imported

[28] Indonesia's Furniture Industry | GBG (gbgindonesia.com)
[29] Ahmad Maryudi (2016), Choosing timber legality verification as a policy instrument to combat illegal logging in Indonesia. Forest Policy and Economics, 68: 99-104.

2.38% out of the total imports market of these dryers in 2019 (474 million USD). Main trading partners are again China (72.5%), Germany (10.5%), and France (5.29%), among other countries[30].

Additionally, other Manufacturing Technologies may be considered under HS Codes of Heading 7315 – *Chain and parts thereof, of iron and steel*. Within this category, 57% of Indonesia's imports correspond to commodities under HS code 731512 (Chain, articulated link, iron or steel, except roller), as well as HS code 731512 (Chain, roller, iron or steel, 33%) and HS code 731519 (Chain parts, articulated link, iron or steel). The primary trading partners for these Manufacturing Technologies were China, Malaysia, Thailand, and Japan in 2019[31], but also Germany and USA in 2020. Portugal contributed 1% of imports to Indonesia of HS 731512 items.

[30] https://oec.world/en/profile/hs92/dryers-for-wood-paper-pulp-paper-or-paperboard

[31] HS code 731511: https://oec.world/en/profile/hs92/chain-roller-iron-or-steel; HS code 731512: https://oec.world/en/profile/hs92/chain-articulated-link-iron-or-steel-except-roller; HS code 731519: https://oec.world/en/profile/hs92/chain-parts-articulated-link-iron-or-steel

CHAPTER 4

Constrains to access the Indonesian market

4. Constrains to access the Indonesian market

This chapter describes the main issues to be taken into consideration by the Portuguese industry of Manufacturing Technologies to access the Indonesian market. Herein, legal and regulatory, as well as operational aspects are addressed.

4.1 Overview of Indonesian business legislation

Since the launch of the ASEAN Economic Community[32] in 2015, Indonesia has been actively relaxing international business rules and policies. As part of the Medium-Term National Development Plan 2020-2024, the Job Creation Law (the so-called Omnibus Law on Job Creation or *UU Cipta Kerja*- Act Number 11 of 2020 on Job Creation) was enacted by the legislative body- People's Representative Council or *Dewan Perwakilan Rakyat/DPR* on the 3rd of November, 2020. The primary aim of this Omnibus Law is to create jobs and increase foreign investment through a more flexible industrial relations regime, a more open investment framework, and less strict environmental safeguards. Furthermore, simplifying business licenses and streamlining corporate tax regulations, positively impacts foreign companies accessing the Indonesian market. As described by Directorate-General for Trade (DG Trade) in the Access2Market platform (which is coordinated by the European Commission), this law certainly eases the European countries to approach the Indonesian market for several sectors that were previously banned and/or restricted: *«The EU has interest in a number of sectors which previously restricted to foreign companies ("foreign equity caps") including in pharmaceuticals and their raw materials, telecommunications, IT, banking and insurances, horticulture, beverages, transport and logistics services, oil/gas, retail, etc. Restrictions on the majority of these sectors have been relaxed or removed in the last Investment List»*[33]. Apart from the Omnibus Law, the Indonesian government implemented regulations that affect differently every country. Nevertheless, according to the Ministry of Trade of Indonesia, the same legal framework for import is applied to all European Union countries, including Portugal.

4.2 Indonesian legal framework regarding imports

The Indonesian government has implemented two kinds of regulations for import activities: general and specific regulations, as detailed below. While the general regulation applies to all industrial sectors, the specific regulation refers to specific products and goods that are related to their function, *e.g.*, health, pharmacy, or food and beverages.

[32] https://asean.org/our-communities/economic-community/
[33] https://trade.ec.europa.eu/access-to-markets/en/barriers/details?isSps=false&barrier_id=11100

4.2.1 General regulation

Import activities to Indonesia are regulated on the measure of (i) quantitative restrictions related to imports; (ii) administrative or customs procedures; and (iii) non-automatic import licensing. According to the European Commission DG Trade, the general regulation includes the following, among others:

- **Trade Law** (Law 7/2014) and **Industry Law** (Law 3/2014), which foresee strong supervision and control of the circulation of goods and confer powers to the Government to introduce restrictions on imports based on national interests.
- The **Government Regulation No. 29/2021 on Operation of the Trade Sector**, as one of the implementing regulations of Law No. 11/2020 on Job Creation, concerning Trade stipulated under the Job Creation Law, covers the distribution of goods.
- The **Government Regulation No. 28/2021 on Operation of Industry Sector**, also an implementing regulation of the Law No. 11/2020 on Job Creation, establishes a new mechanism of licensing and a new legal framework for future incentives related to the procurement of raw and supporting materials.
- **Non-automatic import licensing, pre-shipment controls, and customs procedures** hamper trade. This may add up to tariff peaks or changing customs duties - which, although in compliance with World Trade Organisation (WTO) law, further limit market access. Several regulations, namely the Ministry of Trade Regulation 27/2012 (*amended by Regulations 59/2012, 84/2012, and 70/2015*) and regulation 83/2012 (*replaced by Regulations 61/2013, 87/2015, 94/2015 and 81/2017*) covering pre-shipment controls and entry port restrictions for more than 800 products, create a complex, non-transparent and burdensome non-automatic import licensing system.

4.2.2 Specific regulation

Specific regulation applies to specific products and goods according to the respective HS code and governs trade within the country. As seen in Table 4, different regulations have been implemented according to the products, independently of the industrial sectors, as further detailed in Annex 2.

Table 4. Summary of import regulations based on HS codes for Manufacturing Technologies

Regulation	HS code
The MoT regulation No. 73/M-DAG/PER/9/2015	731511, 731512
Decree of Ministry of Industry and trade No. Decree of Ministry of Industry and trade No. 230/MPP/Kep/7/1997 jo. The MoIT decree No. 0111/MPP/Kep/1/1998 jo. MoIT decree No. 411/MPP/Kep/9/1998 Jo. The MoIT decree No. 789/MPP/Kep/12/2002IT	841199, 841931, 841932, 841939, 841940, 841981, 841989, 841990, 842219, 842220, 842230, 842240, 842290, 844230, 844240, 844311, 844319, 845020, 845090, 845110, 845129, 845130, 845140, 845150, 845180, 845190, 847910,847920, 847930, 847940, 847950, 847950, 847981, 847982, 847989, 847990, 841899, 841869, 841861, 841850
Decree of the Ministry of Finance No. 6/PMK.010/2017	731519,840120, 840721, 840729, 840790, 840810, 840890, 841182, 841221, 841229, 841231, 841239, 841280, 841290, 841869, 841950, 841960,
The MoI regulation No. 34/M-IND/ PER/7/2013	841899
The MoT regulation No. 84/M-DAG/ PER/10/2015 Jo. 18 year 2018	841869, 841861, 841850
The MoH regulation No. 1190/MENKES/PER/ VIII/2010	841850

4.2.3 Tariffs

Regulations and tariffs were also implemented based on each sector and country of origin. For the present study tariff values were collected for products exported from the EU to Indonesia and for different HS codes corresponding to different types of production technologies. These values can be consulted in Annex 1.

For more than 65% of the products the tariffs are 5%. The others can vary between 5 and 15%.

Tariffs of 20% are applied only to the following products:

- Dryers; For Agricultural Products, Not Used For Domestic Purposes
- Chain; Articulated Link, Roller, Of Iron Or Steel
- Chain; Articulated Link, (Other Than Roller), Of Iron Or Steel

On the other hand, tariffs of 0% are applied to the products:

- Washing Machines; Parts For Household Or Laundry-Type
- Dry-Cleaning Machines
- Machines; For Washing, Bleaching Or Dyeing
- Machines; For Reeling, Unreeling, Folding, Cutting Or Pinking Textile Fabrics
- Machinery; For Wringing, Dressing, Finishing, Coating Or Impregnating Textile Yarns, Fabrics Or Made Up Textile Articles; For Applying Paste To Base Fabric Used In Manufacture Of Floor Coverings

4.2.4 Indonesian National Standard (SNI) Label

Indonesia applies a range of national norms and standards summed up under the acronym SNI[34] (*Standar Nasional Indonesia*, Indonesian National Standard).SNI is a labelling requirement (Figure 8) for most of the products distributed in Indonesia. According to the National Standardisation Agency or Badan Standar Nasional/BSN, SNI has legal force that binds various products that have been distributed within the territory of Indonesia. As the SNI is regulated by multiple ministries, it covers a wide scope of products, such as agriculture, medical, automotive, industrial, IT, construction, management system, health, and others. The full requirement, scheme, process, certification, approval, and standard can be accessed easily on https://sni-certification.com/.

Figure 8. Example of the SNI label with reference number

[34] SNI Label Requirement (dimulti.id)

4.3 Registration

To enter the Indonesian market, foreign companies/enterprises need to own several important documents, enlisted below:

- **Tax Identification Number (TIN)**[35], known in Indonesia as *Nomor Pokok Wajib Pajak* (NPWP), is a set of numbers given to taxpayers (both individual and entity) for personal identification in carrying out their taxation rights and obligations (*i.e.*, Income Tax, and VAT). NPWP is administered by the integrated information system in the headquarters of the Directorate-General of Taxes. Online application: https://ereg.pajak.go.idi.

- **Trade Business License**, or *Surat Izin Usaha Perdagangan* (SIUP), is a Letter of Permit from the government to be able to carry out trading business activities. Meanwhile, the meaning of this trade itself is a business activity of goods or services transactions that are carried out continuously to transfer the right to goods or services accompanied by rewards. Any company conducting trade business activities shall have SIUP. Online application: https://oss.go.id/

- **Customs Identification Number** or *Nomor Identitas Kepabean* (NIK) needs to be obtained from the Directorate-General of Customs and Excise (DGCE) by any company wanting to import or export its products to or from Indonesia. The DGCE issues a NIK, which will remain valid unless cancelled by the DGCE. Online application: https://beacukai.go.id/

Figure 9 summarizes the regulatory issues covered by section 4.2 and section 4.3, highlighting the main steps to be considered by a company aiming at importing to Indonesia.

35 Additional information: https://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/tax-identification-numbers/Indonesia-TIN.pdf

Figure 9. Infographics on the regulation to import to Indonesia

4.4 Main communication channels

To facilitate the access of the Portuguese industry of Manufacturing Technologies within the sectors identified in Chapter 3, the most relevant associations and exhibitions are herein included as potential channels for business internationalisation.

4.4.1 Indonesian-Centred Industry Associations and Community

- ASMINDO or Indonesia Furniture Industry & Handicraft Association that shelters all furniture and handicraft companies, ranging from raw material, semi-finished, and finished products. Its mission focuses on the creation and development of favourable business climate towards enhancing furniture industry competitiveness with both technical and regulatory focus.

- GAPKINDO (*Gabungan Perusahaan Karet Indonesia*) or the Rubber Association of Indonesia is an association of Indonesian enterprises within the natural rubber industry. GAPKINDO consists of a Governing Board in the Jakarta Secretariat and Branches in each rubber producing area, namely North Sumatera (including Aceh), West Sumatera, Riau, Jambi, South Sumatera, Bengkulu, Lampung, West Kalimantan, South & Central Kalimantan, and Jawa. Members of GAPKINDO are rubber plantations, processors, exporters, traders (brokers, dealers), and buyer representatives. Currently, the number of GAPKINDO members is 164 companies which are dominated by processors mainly for Standard Indonesia Rubber processing.

- ICC or Indonesia International Chambers of Commerce is a world business organization, helping businesses of all sizes and in all countries to operate internationally. With a global network of over 6 million members in over 100 countries, ICC works to promote international trade, responsible business conduct, and a global approach to regulation.

- CCIIP or Chamber of Commerce and Industry Indonesia Portugal provides links, networking, and a collaboration platform between Indonesian and Portuguese Industries.

- KADIN or the Indonesian Chambers of Commerce and Industry promotes trade and investment in Indonesia by providing specialised support to local and international businesses, as well as providing business matchmaking, promotion, and advertisement, events, and engagement.

4.4.2 Exhibitions and Industrial Networking Events

Although an association brings together different players, international exhibitions can be the main bridge to enable the process of business internationalisation. Several events focused on Indonesian industrial sectors are continuously being conducted where all companies can communicate directly. Examples for 2022 are provided below.

- The 33rd International Plastics & Rubber Machinery, Processing & Materials Exhibition: Plastics & Rubber Indonesia 2021 will be held on 16 – 19 November 2022, at the Jakarta International Expo Kemayoran, Indonesia in a hybrid exhibition format combining the physical exhibition with various activities running on digital platforms.

- The 34th International Machine Tool, Metalworking, and Allied Industries Event will be held in Jakarta in December 2022 with a theme *Towards Industry 4.0*. Co-located with four other industries events including Manufacturing Indonesia, Tools & Hardware Indonesia, Industrial Automation & Logistics Indonesia, and Subcon Indonesia, the exhibitions have become the most trustable and largest manufacturing trade show for machinery, supplies, and equipment exhibitions in Indonesia.

CHAPTER 5

Tips and Recommendations

5. Tips and recommendations

Indeed, being home of 300 ethnic groups, each with its unique set of customs and cultural items, Indonesia is rich in local culture. This section includes tips and recommendations for entering the Indonesian market, particularly addressing the influence of main local cultural features on business practices and expectations when negotiating with European companies. Herein, an in-depth integration of cultural aspects within business contexts is provided.

5.1 Family-oriented culture and business partnerships

First, Indonesia’s culture is incredibly family-oriented. Indonesians maintain close relationships with family members regardless of their age or independence. Moving out of their parents' house is just not an option for many Indonesian youths, even if they have a steady income. And it's not necessarily a sign of dependency; rather, it demonstrates the nation's ideals and standards when it comes to family. Thus, in relation to its business aspect, one must not be surprised if many businesses in Indonesia are family-owned or have family-oriented ideals. Hence, when considering the possibility of developing long-term partnerships in respect to businesses, a relationship must be built first, before attempting to do any business. At the table, expect a few decisions to be made. Instead of haggling, concentrate on win-win scenarios. Because business is inextricably linked to the government and the volatile political situation, try to tread carefully around the issue should it be brought up during conversations. Another piece of advice is to maintain open lines of communication and communicate frequently, but never be too direct, boisterous, or confrontational.

5.2 Religion and business

Next, Indonesians usually prioritize their religious and cultural commitment. Indonesians are generally quite spiritual, regardless of their religion. They take their religious traditions very seriously, as seen by daily rituals, ceremonies, and even the grandeur of their temples. The majority of Indonesians are devout Muslims who pray five times daily. One might have to adjust their timetable to fit their requirements. They usually pray in the morning, lunchtime, mid-afternoon, nightfall, and before retiring. As a result, there will be at least two prayer breaks during a workday. Prayers should last no more than ten or fifteen minutes, and they can be held in any calm and secluded location. On Friday, devout Muslims will not work but will resume work on Saturday or Sunday. Monday through Thursday, plus half a day on Friday and half a day on Saturday, Indonesia has an official workweek. One must be mindful of this schedule when entering the Indonesian market.

This religious aspect is intertwined with aspects of a typical Indonesian's life including politics and business. Similarly, the Indonesian government and politics are also intertwined with business. Moreover, traditions are also still deep-rooted in many Indonesians' lives. They find ways to integrate their traditions and cultural values into the contemporary lifestyle.

5.3 Collectivism and communication strategies in business

Another important aspect to keep in mind about Indonesians is that they are a collective society. Although collectivism has a number of advantages, it also has a number of drawbacks. For example, people from a collective society may be less direct and this may lead into miscommunications. This is an aspect one needs to be aware of when collaborating with Indonesian businesses. One strategy to combat this is to always give clear briefings and ensure in-group harmony. Afterwards, one must always check after meetings in private if people agree and will do what has been agreed upon. Alternatively, one needs to be aware of the cultural aspect of Indonesian's businesses where the majority of meetings are merely ceremonial; usually information is exchanged or previously made decisions are confirmed prior to this. Given Indonesia's collectivist and hierarchical attitude, meetings are too dangerous for open problem solving and decision-making. In terms of oral communication, English is widely used in Indonesia. However, the quality may not be as good as it is in Malaysia and Singapore, which could lead to miscommunication.

Public confrontations are also widely avoided in Indonesia. This is because of the concept of saving face (or 'malu' in Indonesian). Speaking your mind in public is also considered impolite, therefore when talking with your Indonesian colleagues or conducting business meetings, follow the proper protocol. Consequently, communication should be handled in very low tones. Similarly, "yes" does not always mean "yes"; it can signify "yes, I heard you" rather than "yes, I agree with you." And same goes with "no". Foreigners must be able to identify between these slight nuances.

These tiny variances can be culturally translated by a third-party with a solid understanding of Indonesian culture. Sucking air between one's teeth is one way to demonstrate that Indonesians disagree with what has been spoken. This is usually a sign that something is wrong. Evasion of a topic can also be interpreted as a clear 'no,' or in other cases, Indonesians may act as if they haven't heard the question, implying that they are opposed to what is being addressed. Another technique that they will use to deflect unwanted situations would be laughter. Indonesians might use laughter in situations that seem inappropriate to foreigners to hide their embarrassment, shyness, bitterness, or discord.

Indonesians rely heavily on non-verbals due to their high-context culture. This requires one to tune in to their nonverbal antennae in reading Indonesia's social cues during both informal and

formal business meetings. Additionally, Indonesians traditionally conduct less physical contact than most Europeans, never touching beyond a soft handshake, especially with the opposite sex.

With all of these main local cultural features, as well as business practices and expectations when negotiating or conducting meetings with Indonesian companies, European companies are expected to be able to implement and handle social situations adhering to Indonesia's culture. Thus, to put it into practice, in a business setting, one must expect to devote a significant amount of time and effort to develop relationships, to always be courteous to Indonesians, and to be conscious that there is no distinction between business and personal life. Therefore, one needs to be prepared to conduct business at any time and in any location. When building trust in business relations with Indonesians, westerners need to be aware that it is done differently there. Whilst building trust in western countries can be done by showcasing accomplishments and demonstrating product quality, Southeast Asians build trust through an emotional process.

CHAPTER 6

Conclusions

6. Conclusions

The study of the industrial Indonesian market enabled a detailed analysis of trade relationships between Indonesia and the World, identifying sectors in which the Portuguese industry of Manufacturing Technologies may have relevant business opportunities in the short-to-long term. This study evidenced a need for investment in the Indonesian manufacturing sector towards enabling industries to remain attractive and actively contribute to economic growth. Hence, distinct industrial sectors were assessed to better understand the dynamics of the Indonesian industry. Economic indicators of industrial sectors have been relatively stagnant over the past years. The majority of industrial sectors analysed have been registering negative variations in imports.

The economic assessment allowed the identification of three sectors that have a consistently good performance and are at the same time compatible with the current capacity and expertise of the Portuguese industry of Manufacturing Technologies. The leather industry, leather goods, and footwear ranked 4th in sales turnover and foreign investment, and 3rd in the number of employees. The rubber industry, rubber goods, and plastic industry hold the 5th place in number of companies and number of employees. The furniture industry was highlighted as it ranked 5th in sales turnover and holds a positive variation in export volume. It is worth mentioning that the machinery and equipment industry sector relies on importing machinery components to Indonesia, where manufacturing equipment is then assembled and sold, and/or exported. Thus, this sector is likely a competing sector to the Portuguese industry of Manufacturing Technologies in the Indonesian market.

Although Portugal does not hold a strong position in the trade market of Indonesia, distinct opportunities could still be identified. Indeed, the Indonesian market is highly dependent on imports but the existence of free trade agreements between this country and other Asian countries, as well as with the USA, have long been favouring trade with non-EU partners. Main trade partners for all sectors include China, Japan, South Korea, Malaysia, and Thailand in Asia, but also USA and EU countries like Italy, Germany, and France. Portugal is already on Indonesia import list (2020) for Manufacturing Technologies under the following HS codes related to the three sectors identified: 731512 (1%), 845130 (2.4%), 845180 (0.4%), 847920 (0.2%), 847950 (0.2%).

From the three sectors analysed, some considerations regarding potential business opportunities should be highlighted. Among the sectors studied, two of them appear to be most promising in the short-to-medium term given their characteristics and possibilities for expansion.

In particular, the trade market for the leather industry, leather goods, and footwear, although dominated by China, includes EU partners with very strong positions, such as Italy, Germany,

Spain, and France. This demonstrates the openness of the sector to establishing trade relationships with European players, further supporting the investment of the Portuguese industry of Manufacturing Technologies in this sector within the Indonesian market.

Furthermore, the rubber industry, rubber goods and plastic industry sector is characterised by an expansion of rubber manufacturers in Indonesia. Hence, this sector may present interesting business opportunities in the near future.

Regarding the furniture industry sector, despite the good economic performance indicators, its import market seems to be mostly dominated by Asian trade partners and the sector is currently facing several bureaucratic constrains, which is expected to result in limited growth of the sector over the upcoming years.

Finally, access to the Indonesian market is highly regulated. Specific regulations and tariff must be consulted by the HS code, which can be done through *Access2Markets*, and administration documents must be registered before initiating the import process.

Annexes

Annex 1. List of HS Codes and Tarifs

HS Code	Manufacturing Technologies
731511	Chain; Articulated Link, Roller, Of Iron Or Steel
731512	Chain; Articulated Link, (Other Than Roller), Of Iron Or Steel
731519	Chain; Articulated Link Parts, Of Iron Or Steel
840120	Machinery And Apparatus; For Isotopic Separation, And Parts Thereof
840721	Engines; Outboard Motors For Marine Propulsion, Spark-Ignition Reciprocating Or Rotary Internal Combustion Piston Engines
840729	Engines; For Marine Propulsion, (Other Than Outboard Motors), Spark-Ignition Reciprocating Or Rotary Internal Combustion Piston Engines
840790	Engines; Rotary Internal Combustion Piston Engines, For Other Than Aircraft Or Marine Propulsion
840810	Engines; For Marine Propulsion, Compression-Ignition Internal Combustion Piston Engines (Diesel Or Semi-Diesel Engines)
840890	Engines; Compression-Ignition Internal Combustion Piston Engines (Diesel Or Semi-Diesel Engines), Of A Kind Used For Other Than Marine Propulsion Or The Vehicles Of Chapter 87
841182	Turbines; Gas-Turbines (Excluding Turbo-Jets And Turbo-Propellers), Of A Power Exceeding 5000kW
841199	Turbines; Parts Of Gas Turbines (Excluding Turbo-Jets And Turbo-Propellers)
841221	Engines; Hydraulic Power Engines And Motors, Linear Acting (Cylinders)
841229	Engines; Hydraulic Power Engines And Motors, Other Than Linear Acting (Cylinders)
841231	Engines; Pneumatic Power Engines And Motors, Linear Acting (Cylinders)
841239	Engines; Pneumatic Power Engines And Motors, Other Than Linear Acting (Cylinders)
841280	Engines; Pneumatic Power Engines And Motors, N.E.C. In Heading No. 8412
841290	Engines; Parts, For Engines And Motors Of Heading No. 8412
841850	Furniture Incorporating Refrigerating Or Freezing Equipment; For Storage And Display, N.E.C. In Item No. 8418.1, 8418.2, 8418.3 Or 8418.4 (Chests, Cabinets, Display Counters, Show-Cases And The Like)
841861	Heat Pumps; Other Than Air Conditioning Machines Of Heading No. 8415
841869	Refrigerating Or Freezing Equipment; N.E.C. In Heading No. 8418
841891	Refrigerating Or Freezing Equipment; Parts, Furniture Designed To Receive Refrigerating Or Freezing Equipment
841899	Refrigerating Or Freezing Equipment; Parts Thereof, Other Than Furniture
841931	Dryers; For Agricultural Products, Not Used For Domestic Purposes
841932	Dryers; For Wood, Paper Pulp, Paper Or Paperboard, Not Used For Domestic Purposes
841939	Dryers; For Products N.E.C. In Heading No. 8419, Not Used For Domestic Purposes
841940	Distilling Or Rectifying Plant; Not Used For Domestic Purposes
841950	Heat Exchange Units; Not Used For Domestic Purposes
841960	Machinery; For Liquefying Air Or Gas, Not Used For Domestic Purposes

HS Code	Manufacturing Technologies
841981	Machinery, Plant And Equipment; For Making Hot Drinks, For Cooking Or Heating Food
841989	Machinery, Plant And Laboratory Equipment; For Treating Materials By Change Of Temperature, Other Than For Making Hot Drinks Or Cooking Or Heating Food
841990	Machinery, Plant And Laboratory Equipment; Parts Of Equipment For Treating Materials By A Process Involving A Change Of Temperature
842219	Dish Washing Machines; Of Other Than Household Type
842220	Machinery; For Cleaning Or Drying Bottles Or Other Containers
842230	Machinery; For Filling, Closing, Sealing, Capsuling Or Labelling Bottles, Cans, Bags Or Other Containers, Machinery For Aerating Beverages
842240	Machinery; For Packing Or Wrapping
842290	Machinery; Parts Of Machinery Of Heading No. 8422
844230	Machinery, Apparatus And Equipment (Excluding Machines Of Heading No. 8456 To 8465) For Preparing Or Making Printing Components
844240	Machinery, Apparatus And Equipment (Excluding Machines Of Heading No. 8456 To 8465) For Preparing Or Making Printing Components; Parts Thereof
844311	Printing Machinery; Offset, Reel-Fed
844319	Printing Machinery; Used For Printing By Means Of Plates, Cylinders And Other Printing Components Of Heading 84.42, N.E.C. In Item No. 8443.1
845020	Washing Machines; Household Or Laundry-Type, Of A Dry Linen Capacity Exceeding 10kg
845090	Washing Machines; Parts For Household Or Laundry-Type
845110	Dry-Cleaning Machines
845129	Drying Machines; Of A Dry Linen Capacity Exceeding 10kg
845130	Ironing Machines And Presses (Including Fusing Presses)
845140	Machines; For Washing, Bleaching Or Dyeing
845150	Machines; For Reeling, Unreeling, Folding, Cutting Or Pinking Textile Fabrics
845180	Machinery; For Wringing, Dressing, Finishing, Coating Or Impregnating Textile Yarns, Fabrics Or Made Up Textile Articles; For Applying Paste To Base Fabric Used In Manufacture Of Floor Coverings
845190	Machinery; Parts, Of The Machinery Of Heading No. 8451
847910	Machinery And Mechanical Appliances; For Public Works, Building Or The Like
847920	Machinery; For The Extraction Or Preparation Of Animal Or Fixed Vegetable Fats Or Oils
847930	Machinery And Mechanical Appliances; Presses For The Manufacture Of Particle Or Fibre Building Board Of Wood Or Other Ligneous Materials And Other Machinery For Treating Wood Or Cork
847940	Machines; For Making Rope Or Cable
847950	Machinery And Mechanical Appliances; Industrial Robots, N.E.C. Or Included
847981	Machines And Mechanical Appliances; For Treating Metal, Including Electric Wire Coil-Winders
847982	Machines; For Mixing, Kneading, Crushing, Grinding, Screening, Sifting, Homogenising, Emulsifying Or Stirring
847989	Machines And Mechanical Appliances; Having Individual Functions, N.E.C. Or Included In This Chapter
847990	Machines And Mechanical Appliances; Parts, Of Those Having Individual Functions

HS Code	Tax	HS Code	Tax	HS Code	Tax
73151110	20%	84089052	5%	84186930	15%
73151191	15%	841182	5%	84186990	15%
73151199	15%	841199	5%	84186910	15%
731512	15%	841221	5%	841891	5%
731519	5%	841229	5%	841899	5%
840120	5%	841231	5%	84193130	20%
840721	5%	841239	5%	84193140	7.5%
840729	5%	841280	5%	84193190	20%
84079010	7.5%	841290	5%	841932	5%
84079020	7.5%	84185011	10%	841939	5%
84079090	5%	84185091	10%	841940	5%
840810	5%	84185019	15%	841950	5%
84089010	10%	84185099	15%	841960	5%
84089010	0%	841861	5%	841981	12.5%
841989	5%	842290	5%	845090	0%
841990	5%	844230	5%	845110	0%
842219	5%	844240	5%	845130	10%
842220	5%	844311	0%	845140	0%
842230	5%	844319	5%	845150	0%
842240	5%	845020	5%	845180	0%
847930	5%	847920	5%	845190	5%
847940	5%	847950	5%	847981	5%
847982	5%	84798920	5%	84798940	5%
84798931	9%	84798939	9%	847990	5%

Annex 2. Details on specific regulation

The MoT regulation No. 73/M-DAG/PER/9/2015

This regulation's main concern is about 'Goods in Wrapped Condition', as stated in Article 2:

(1) *"The Business Actor who produces or imports Goods to be traded in the domestic Market is required to affix Labels in the Indonesian Language;*

(2) The obligation to affix Labels in the Indonesian Language, as meant in paragraph (1) is carried out by the:

a. Producer for domestic produced Goods; and

b. Importer for Imported Goods"

Decree of Ministry of Industry and trade No. 230/MPP/Kep/7/1997 jo. The MoIT decree No. 0111/MPP/Kep/1/1998 jo. MoIT decree No. 411/MPP/Kep/9/1998 Jo. The MoIT

This decree concerns the goods subject to the import trade system of prohibition for non-economic reasons.

Article 12

(1) The import of waste containing hazardous and toxic materials as stipulated in Government Regulation No. 19/1994 as already amended by Government Regulation No. 12/1995, except waste and scrap of primary cells, primary batteries, used electric accumulators under HS 8548.10.000 and waste and scrap of lead under HS 7802.00.000, shall be prohibited.

Decree of Minister of Industry and Trade No. 110/MPP/Kep/1/ 1988

This decree focuses on The Prohibition of the Production and Trading ozone depleting substances, and goods containing ozone depleting substances.

MoIT decree No. 411/MPP/Kep/9/1998 Jo.

Amendment of Decree on the Prohibition in Producing and Trading Ozone Depleting Substances as well as in producing and Trading new goods ozone depleting substances.

The MoIT decree No. 789/MPP/Kep/12/2002IT

The decree focuses on the goods subjected to import control by the Ministry of Trade.

Decree of the Ministry of Finance No. 6/PMK.010/2017

This decree focuses on the tax regulation specifically assigned by the Ministry of Finance. The Decree no. 6 highlighted the Stipulation of Goods Classification System and Imposition of Import Duty Tariffs on Imported Goods.

The MoI regulation No. 34/M-IND/ PER/7/2013

This decree concerns the certification and product labels (The SNI labels, which will be duly explained in this chapter).

According to article 20 of Act 20/2014 on conformity assessment in Indonesia (http://peraturan.go.id/inc/view/11e4b02f0fe977bab970313434313330.html) it is required to have certificate (of conformity) for products

According to articles 20 and 22 of Act 20/2014 on conformity assessment in Indonesia (http://peraturan.go.id/inc/view/11e4b02f0fe977bab970313434313330.html) it is required to label products with SNI Mark

The MoT regulation No. 84/M-DAG/ PER/10/2015 Jo. 18 year 2018

Article 10:(1) Companies that import cooling system based goods as referred to in Article 4 are required to submit a report on import realization, either realized or unrealized to the Director General.(2) The report as referred to in paragraph (1)

Article 3: (1) Cooling system based goods as referred to in Article 2 can be imported if not using HCFC-22 (Hydrochlorofluorocarbon 22) refrigerant. (2) Cooling system based goods as referred to in Article 2 are prohibited to be imported if using HCFC-22

Article 4: Import of Cooling System Based Goods can only be done by the company that has the Importer Identification Number (API).

Article 6: (1) Every implementation of import of Cooling System Based Goods as referred to in Article 2 should be conducted verification or technical inquiry in loading port. (2) The implementation of verification or technical inquiry as referred

Article 8 (5): (5) In the case of verification or technical inquiry of the import of Cooling System Based Goods conducted, surveyor shall collect service charge from the company that imports the cooling system based goods which amount is determined by taking (...)

The MoH regulation No. 1190/MENKES/PER/ VIII/2010

This regulation highlighted the non-automatic import-licensing procedures other than authorizations for SPS or TBT reasons, certification and labelling requirements, and traceability requirements.

Article 9 (1) : Medical Devices and/or Household Products (HHP) that obtain the marketing license should comply with following criteria: a. the safety and effcacy of Medical Devices, which are proven by conducting the clinical test and/or other evidences

Article 9 (2) : The good manufacturing practices of Medical Devices and/or Household Products (HHP), which are imported products, is shown by the production certifcate

The company that possesses the marketing license of Medical Devices and/or Household Healthcare Supplies should submit the report on the results of monitoring the side effects periodically 1 (one) time a year, according to the sample in form 3 as attached

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