

Entrepreneurship Opportunities and Problems in Indonesia

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Abstract: In 2008 when I visited to Jakarta for editorship of the book “Entrepreneurship Opportunities in Indonesia” two different survey studies with regard to entrepreneurs and companies were completed. In face to face meetings with company supervisors and official authorities more detailed information related to this subject was collected. In 2004 while visiting Malaysia, Singapore and Indonesia during a 6-month academic study, I gathered background information on these countries, and no doubt that these data had made positive contributions to these studies.

In this study four main topics were examined: “current potential in Indonesia for foreign investors”, “opportunities in different sectors”, “potential problems” and “business relations rules”, which were responded by about 100 company supervisors and government authorities.

Key words: Entrepreneurship, investment opportunities, Indonesia.

Introduction

Indonesia can be considered as one of the richest countries on Earth due to its biological diversity. The country is located between Asia and Australia, comprised of more than 17,000 islands that stretch 5,000 km from east to west. Because of its complex geographical make-up and unique biogeographic position Indonesia has enormous ecosystem diversity, as well as a fascinating history and heritage. In terms of human diversity, with more than 210 million inhabitants, the country ranks as the fourth most populous nation in the world and the third largest democratic country. It is also the world's largest Islamic nation, where a constitutional freedom to practice other religions sees major groups of Christians, Buddhists, Hindus and other faiths existing side by side. There are approximately 336 distinct recognized cultures that share more than 250 spoken languages. The lingua franca, Bahasa Indonesia, was adopted only 77 years ago and is now widely used throughout this vast land, serving as a means of communication and as a unifying factor. Indonesia is a diverse country and it is among the culturally richest countries on Earth.¹

In addition to this it has enormous mineral, marine and natural resources and it is evident that it ranks as a major economic force in the region. Following the economic and financial crisis that hit the country in 1997, the Indonesian government recognized the important role of foreign investment in the reconstruction of the Indonesian economy. During following years, the successive governments carried out legal and regulatory reforms designed to make Indonesia a competitive destination for foreign direct investment. From the socio-economic point of view the development of entrepreneurship is very important for Indonesia, where the market economy is still in the process of development. The Encouragement Plan for Development of Entrepreneurship approved in 1995 by the president Soeharto is of great importance. By the effects of economical crisis, increasing level of unemployment caused the state to pay more attention to development of entrepreneurship. In Indonesia approximately 40 million people are in search of a job. Formulation of such a big number of unemployed people arise threats for the country such as increasing number of criminals and decreasing the social welfare. The growth of employment in the country will be possible through the encouragement of entrepreneurship by the government.²

1. Opportunities and Problems

For Indonesia, which is in a development trend, healthy growth of the socio-economic structure depends on enterprises, mainly on SMEs. The SMEs share 99% of the total enterprises in Indonesia.³ Parallel to country's large territory, there are many problems both in general and specific with regard to placing the entrepreneurship on the focus of attention. One can assume that in the future such a great country will have big

¹ Doing Business in Indonesia, Urbach Hacker Young International Ltd (UHY), Indonesia, 2008, p.4

² Selim Ozdemir, “Motivational Factors Influencing Entrepreneurship in Indonesia: An Empirical Study”, (not published)

³ The Ministry of Cooperative and SME Republic of Indonesia, Press release, 2003. p.1.

enterprises with their important contribution to its development, and also there will be local and foreign investors which can transform problems to opportunities and can utilize current potential of the country.

The Government of Indonesia has signed contract with 56 countries, including Turkey for the purpose of protecting foreign investment. Indonesia takes the responsibility of protecting assets of these foreign investors and allows sending profit dividend to their countries. Indonesia also is the member of MIGA (Multinational Investment Guaranty Association). In relation with this, the government made a decision on protecting foreign investments against possible political crisis. Indonesia launched some loosening politics in the beginning of 1990s, such as decreasing tax rates in foreign trade policy, applying non-tariff barriers. The Government of Indonesia is decreasing the number of import restrictions and products which are under special license.

Encouragement items about foreign investors can be listed as follows:

- Foreign enterprise can be formed 100% by foreign share. But in infrastructure this is 95%.
- For foreign investors there isn't any necessity to sale shares to local companies.
- There isn't minimum capital amount.
- Foreign investment procedure and confirmation is being completed within 5 days.
- For the purpose of investment, custom taxes for machinery and raw materials have been decreased by 5%.
- The depreciation period in foreign investments is short. Dividend tax is 10%.

Despite the positive developments in the economy, Indonesia has smaller investment environment than other rival countries in this region, because of bureaucracy, corruption and chaos in country's law structure. Although, there are noticed different developments, such as trade mark, copyrights, commercial secrets, protection of industrial designs, yet there isn't sufficient protection in this area. Fighting piracy with respect to patents, trademarks and trade copyrights isn't be successful. The Trade Mark Rights protects trademarks not based on first utilization, but first registration. Finally, it can be noticed that commercial secrets are not protected by the Indonesian laws. For industrial designs and models there isn't enough protection either.

The Indonesian Government is applying labeling policy for imported food products. According to this policy, for imported food products there must be used labels in Indonesian language. This application is making obstacles for Turkish companies which are exporting food products not only to Indonesia, but to other countries. In some sectors the existence of monopoly impedes development of entrepreneurship on the said sectors. For example, companies that operate in natural gas sector have licensed rights which allow them to derive benefits from different advantages, and this situation prevents other companies from entering these sectors.¹

2. Entrepreneurship Survey Analysis in Indonesia for Foreign Investors

Doing researches on entrepreneurship in Indonesia is important for foreign investors who desire to engage in entrepreneurial activities in this country. These studies, which analyze opportunities and problems in entrepreneurship, will be guidance for the business world. General evaluation according to the survey questions responded by approximately 100 Indonesian and Turkish entrepreneurs and official authorities are given below. Four question topics were examined here: "current potential in Indonesia for foreign investors", "opportunities in different sectors", "probable problems" and "rules in business relations" which were responded by about 100 company supervisors and government authorities.

Under the topic of "From the standpoint of foreign investors' thoughts about current potential in the country" the given responds were like this: Indonesia is an attractive country which has much more potential for investors in different fields. Its geography, population and trade capacity is the most important potential. In 2007 there was 114 billion USD export and 74 billion USD import in this country.

There are enough subsoil and surface resources. According to export of coconut palm oil Indonesia takes the leading position. The three largest companies of Indonesia are engaged in coconut palm oil production. The country's second largest company SINARMAS is doing business in four sectors: coconut palm oil, paper production, construction and finance.

Rapid development of Taiwan, South Korea, Singapore and Malaysia and their relations with Indonesia increases the potential of this region. There are about 48 million SMEs in Indonesia, and also there is the Ministry of SME and its subunits.

Evaluations on the question "Which sectors in Indonesia are recommended for foreign investors and what opportunities they have?" are as follows: Every sector is important, but potential sectors are: textile, mill machinery, construction products, spare parts for cars, motorbikes, agriculture machinery, infrastructure and apartment building, construction of hydroelectric and thermal electric stations, navigation, food and

¹ Selim Ozdemir, Endonezyada Giriřimcilik Fırsatları, (not published).

consumption products, shop chains, mining (especially coal), electronic products, industrial agriculture products, airline business, recreation business, telecommunication, oil and natural gas sectors.

It's logical to provide raw materials and semi-finished products from Indonesia. "Container" fees are very low and it's possible to export "zero custom" technologic machines from Europe to Indonesia. Mediterranean products like dry fruit, olive oil, greenery and fruit are important export products. Because of cheap labor force, it's difficult to enter the sectors such oil and gas. Agricultural and industrial products with applied technical knowledge will be more suitable for foreign investors. There can be built a coconut palm oil factory.

For those entrepreneurs who are engaged in small business, it's recommended to open fast-food, candy shops, and building mini-sport complexes. Due to region's population important brand strategies can be launched. Religion tourism is a potential business area which can bring much more benefits and returns on investments. Doing business in education sector, especially opening a university with international status and building education centers based on English language will be a strategic investment.

Thoughts on "Problems awaiting foreign investors in Indonesia" are the following: There is not enough government incentive for foreign investors, the industry and infrastructure has not been developed well enough and there are no mining rights. Like in many countries there are corruption problems in the enforcement of adopted laws. Not forming of secure and healthy environment is an important obstacle. There are considerable bureaucratic problems due to weak synchronization of the central and regional government units.

In Indonesia another important problem for foreign investors is the conflicts between local people in having rights on lands. Monopoly and protection, high costs, language based communication problems with local people, geographic adjacency of Australia are the main disadvantages. Traffic jams in Jakarta is an important problem for entrepreneurs who want to do business in this city.

"Entrepreneurs who want to do business in Indonesia must pay attention to factors in work relations" are examined like this: One should possess special information about Indonesia. There were plenty of foreign investors who lost money by different ways, like advance. There must be gained enough information from individuals and entities that know this region well and then an action should be taken accordingly. With possibility of 100% foreign investment, investors who don't know country's environment should be guided by the state and other agencies which encourage foreign investments. Before doing investment it would be reasonable decision to see the region. Market researches will help to reduce costs. The support of consultants should be taken consultant in order to determine the investment costs exactly. It is necessary to take effective marketing activities.

Personal relations are very important. For entering to market, short-term investments have more advantages than long-term one. Those who want to start up a midsize business should find long-term support. Such kind of support can be provided in three different forms: 1. Strong capital. 2. Company supported activity. 3. Cooperation with people who are well-informed about Indonesia.

Paying attention to the distance between work place and home will solve traffic jam problems. There must be given standardized trainings and education to personnel and international exchange and development programs should be applied for increasing quality. One needs to understand Indonesia, its local people and culture. Those who want to open a business in this country must have patience at least like Indonesians. Because, phrases like "sebantari lagi" (soon), "gampang" (easy) are the signs of time waste habits of this country's people.

Conclusion and Suggestions

In a country with 250 millions of population and rich natural resources, poorly developed industry and infrastructure, weakly synchronized central and regional government authorizes with bureaucratic problems directly affect the investments of foreign investors; trade relations are generally in import-export axis. In meetings with Indonesian and Turkish businessmen one can notice the formation of necessary resources for foreign investors to do business in important sectors.

In comparison with China, India and the USA, Indonesia is more pure market for foreign investors. Indonesia is the country which conducts barter trade with other countries: exporting raw materials and importing finished goods. This shows that Indonesia can be a potential trade partner. In many countries there are very little advantages for small and middle size enterprises, however, in Indonesia there are many advantages for them.

We can give the following suggestions for the formulation of effective entrepreneurial activities in Indonesia:

1. Increasing the state support to SMEs.
2. Development of laws for encouragement of foreign investors.
3. Decreasing the bureaucratic obstacles.
4. Effective struggle against corruption.
5. Development of investment consulting services for companies.

6. Investors should start doing business with short-term investments.
7. To attract foreign investors to the country through organization of exhibitions and job picnics.

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