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# Economic Report 2020

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# Executive Summary

## *Indonesia's economy*

Covid-19 has put Indonesia's economic resilience in the past years into a crisis. With an upgraded status to an upper-middle income country by the World Bank's country classifications according to income level (July 2020), the pandemic has put challenges forward to Indonesia's progress. Indonesia's **GDP contracted at -2.1% yoy** in 2020, its first recession since the 1998 financial crisis. Nonetheless, national economic growth has maintained a recovery momentum in Q4 of 2020, indicated by a shallower contraction of -2.1% yoy (3<sup>rd</sup> quarter: -3.49% yoy). The Outlook for 2021 remains robust, with a gradual economy projection of 4.3 – 5.3% (Bank of Indonesia), 4.8% (IMF), 4.4% (World Bank), and 4.5% (ADB).

The pandemic crisis has required measures that change the key pillars of Indonesia's macroeconomic indicators. The budget deficit soared to -6.1% in 2020, and the government has decided to suspend the ceiling budget deficit of 3% of GDP until 2022. According to the World Bank, as of December 2020, the total debt ratio is projected at **37.5%** of GDP. Inflation rate was recorded at 1.68% in 2020, the lowest level in history. In 2020, the Indonesian Rupiah depreciated by 1.4% against the USD.

Indonesia's trade balance shows a favorable sign in 2020, with a trade surplus of USD 21.7 billion from a trade deficit of USD 3.6 billion in 2019. Indonesia's total **trade** in 2019 was USD 304.8 billion (-11.1%). Exports decreased by 2.61%, while imports deeply contracted by 17.34%, contributing largely to the surplus. ASEAN is still Indonesia's leading export destination, while China became the leading import source in 2020.

The implementation of the **Law on Job Creation** is expected to boost economic recovery in 2021. With a spirit of easing business activities, the Law is also addressing the pandemic's severe impact on unemployment, with an estimation of creating 3 million jobs per year. Furthermore, the Law also opens more sectors to foreign investment, and amends Article 20 of the Patent Law on local manufacturing requirement. However, local and international organizations have raised concerns over the environmental protection aspects in the Law.

In 2020, **Foreign Direct Investment** (FDI) increased in 2020 by 7% yoy, with 56'726 projects. As an alternative source for economic development financing, the Law on Job Creation has stipulated the establishment of the Indonesia Investment Authority (INA) as Indonesia's Sovereign Wealth Fund. After the postponement due to the pandemic, the Bill on National Capital has been included in the 2021 National Legislation Priority to serve as the legal basis for Indonesia's new capital.

In the past years, the government's efforts to boost the economic growth have been recognized by the improvement of business indicators, although some have stagnated. The [World Bank's Ease of Doing Business \(EoDB\)](#) Index placed Indonesia's ranking stagnant at 73<sup>rd</sup> in 2020 (October 2019 data). According to the [World Bank's Logistics Performance Index](#), Indonesia's performance improved over the past years, from 63<sup>rd</sup> in 2016 to 46<sup>th</sup> in 2018, out of 168 countries. However, [IMD World Competitiveness Report](#) ranked Indonesia 40<sup>th</sup> out of 63 countries; it fell eight places from the previous report.

Indonesia has been regarded as an Investment Grade country since 2017. The economic contraction in Q1 of 2020 has affected Indonesia's credit ratings from stable to negative, according to credit rating agencies. However, as of March 2021, Fitch Ratings affirmed Indonesia at BBB/Stable, indicating favorable economic growth and a low (but still rising) government debt burden compared with other BBB category peers.

## *Bilateral trade and economic relations*

The bilateral Switzerland-Indonesia trade in 2020 increased steadily by 3.2% yoy (CHF 882 million – without gold) and significantly increased by 111.5% (CHF 3'103 million – with gold). Machines, appliances, and electronics make the most significant contribution to exports from Switzerland to Indonesia. Switzerland imported mostly precious metals (primarily gold) from Indonesia, which constitutes 85.3% of the total imports. The high increase of machinery as Swiss export commodity to Indonesia indicates that manufacturing sector starts to pick up. From Indonesia's perspective, Switzerland has been regarded as Indonesia's top three precious metals export destinations in 2020, along with Singapore and Japan.

On 9 April 2021, the Indonesian parliament has officially ratified Indonesia-EFTA Comprehensive Economic Partnership Agreement (IE-CEPA) as Indonesia's first economic agreement with European countries. After the positive result on the referendum in Switzerland, the sustainability ordinance is currently being assessed as part of the IE-CEPA ratification process. A possible entry into force of the IE-CEPA is expected for the second semester of 2021. From a business perspective, the Swiss-Indonesian Chamber of Commerce (SwissCham) and the new Swiss Center Indonesia (SCI) continue to facilitate business by Swiss companies in Indonesia, particularly to adapt to the pandemic challenges.

# 1. Recent economic developments and challenges

## 1.1 The Economic Impact of Covid-19

Covid-19 has created unprecedented impacts on Indonesia's economy. As of March 2021, a year after the pandemic hit, Indonesia has recorded more than 1.5 million confirmed cases and over 40'000 deaths. The enactment of large-scale social restrictions in many cities exacerbated the economic uncertainties, particularly the informal sectors. Declining of the household consumption (-2.63% yoy) had significantly contributed to the country's economic contraction at -2.1% yoy in 2020.

The pandemic's impact to the labor market has been severe. The open unemployment rate soared to the highest level since 2011 by 7.1% in August, an increase of 2.56 million people, which made the total of 9.77 million people with unemployed status. The Ministry of Manpower recorded, that 29.12 million out of the 138.22 million workforce are affected (including temporarily unemployed) by the pandemic. The situation also added up to the number of informal workers in Indonesia to 60.47% (previously 55.88%) of the total workforce.

After years of progress in poverty alleviation, Indonesia recorded the highest poverty rate of 10.19% (27.55 million of the total population) in 2020. The pandemic has severely affected the household finances, with a higher income reduction experienced by the urban households compared with the rural ones. A survey conducted by [SMERU Institute](#) in 2020 noted that the loss of earnings was not the only challenge, but the rise of expenses exacerbated the household finances, particularly for the households with children who had to study remotely due to school closures.

### Measures by the government and current progress

In response to the crisis, the government adopted a massive stimulus program of USD 49.2 billion<sup>1</sup> (IDR 695.2 trillion) through a National Economic Recovery Program (PEN) in 2020. The Asian Development Bank (ADB) ranks Indonesia among the top five countries in regard of government stimulus in handling the pandemic. In February 2021, the Ministry of Finance announced an increase of the PEN stimulus in 2021 to USD 49.7 billion<sup>2</sup> (IDR 699.43 trillion), which covers the following sectors:

PEN Stimulus Budget	2020 <sup>3</sup>	2021 <sup>4</sup>
<b>TOTAL</b>	<b>USD 49.2 billion</b>	<b>USD 49.7 billion</b>
Health	USD 6.2 billion	USD 12.5 billion
Social Safety Net	USD 14.4 billion	USD 11.2 billion
Business Incentives	USD 8.5 billion	USD 3.8 billion
Support of SME	USD 8.7 billion	USD 13.3 billion
Corporate Financing	USD 3.8 billion	
Sectoral / priority programs	USD 7.4 billion	USD 8.9 billion

Source: Ministry of Finance, February 2021

The government allocates the most budget in the health sector, particularly to implement the vaccination program to restore public confidence, with a total target of having 181.5 million people vaccinated until April 2022. The government had also adapted the Pre-Employment Card Program, which was initiated before the pandemic, and tailored the program to people affected the most by the crisis, such as the informal workers and small business owners. For this purpose, the budget has been increased to USD 1.22 billion (IDR 20 trillion) from initially planned USD 0.6 billion<sup>5</sup> (IDR 10 trillion). Supports to the Micro, Small and Medium Enterprises (MSMEs) are continued in various forms, such as relaxation of asset quality assessments, low-interest working capital loans, and tax incentives borne by the government.

Signs of gradual economic recovery were seen in Q4 of 2020, which recorded a shallower contraction (-2.19%) compared with Q3. Besides healthcare, sectors associated with working from home and school from home, particularly Information and Communication services, continued to improve and maintained growth in the fourth quarter. Meanwhile, the Manufacturing Industry and Trade, as one of the large sectors contributing to the economy, improved to experience a shallower contraction. The materialization of government stimulus has also contributed to the domestic economic development in Q4. The Ministry of Finance projects a shallower budget deficit of 5.7% of GDP after 6.1% deficit in 2020. The positive economic projection signals a policy transformation from crisis management to maintaining recovery.

<sup>1</sup> Exchange rate: USD 1 equals to IDR 14'135, as of 17 June 2020

<sup>2</sup> Exchange rate: USD 1 equals to IDR 14'060, as of 25 February 2021

<sup>3</sup> The figures of the 2020 PEN Stimulus Budget use the exchange rate as of 17 June 2020

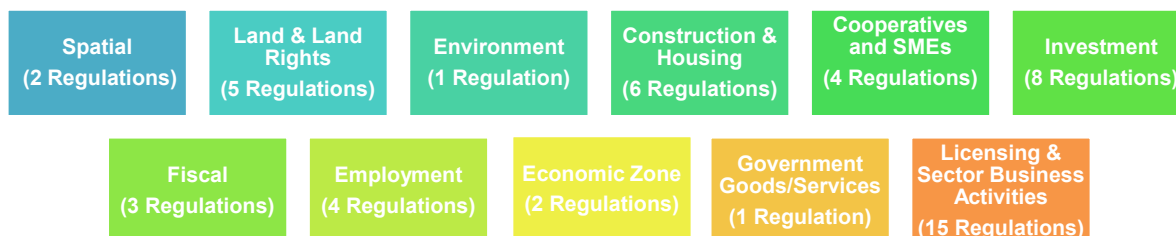
<sup>4</sup> The figures of the 2021 PEN Stimulus Budget use the exchange rate as of 25 February 2021

<sup>5</sup> The two figures in USD use the exchange rate as of 31 March 2020 (USD 1 equals to IDR 16'327)

## 1.2 Law on Job Creation

The government enacted Law 11/2020 on Job Creation on 2 November 2020, after the parliament passed the Bill on 5 October 2020. The Law amends 78 Laws, thus often referred as the “Omnibus Law”. On 21 February, the government has completed 51 Implementing Regulations of Law on Job Creation, consisting of 47 Government Regulation and 4 Presidential Regulations, as follows:

### Implementing Regulations of Law on Job Creation



Source: Indonesian Coordinating Ministry for Economic Affairs

Law 11/2020 on Job Creation is considered as a strategic policy to address the hyper-regulation and provide legal certainty, boost competitiveness, and improve the ease of doing business. The Law complements Government Regulation *in lieu* of Law 1/2020<sup>6</sup>, which provides the legal basis for the government, banking, and financial authorities to take extraordinary steps to save the national economy and ensure financial stability. The government expects the Law on Job Creation to encourage employments and facilitate new business openings, while recovering from post-pandemic recovery.

### Highlights of Law on Job Creation

<b>Business Licensing</b>	<ul style="list-style-type: none"> <li>Establishing a risk-based business licensing (low, medium-low, medium-high, and high risk) based on the assessments of the level of danger relating to health, safety, environment, and the resources utilization.</li> </ul>
<b>Investment</b>	<ul style="list-style-type: none"> <li>Introduction of ‘Positive Investment List’, which opens all business fields for investment, with the exception of 6 sectors<sup>7</sup>, as stipulated under Law 25/2007 on Investment</li> <li>Establishing the first Sovereign Wealth Fund (SWF), Indonesia Investment Authority (INA), as an alternative source of economic development financing.</li> </ul>
<b>Ease of Doing Business</b>	<ul style="list-style-type: none"> <li>Amendment of Article 20 of Patent Law 13/2016 on local manufacturing requirement, which stipulates multiple ways to implement Patent, including import and license the patented products.</li> </ul>
<b>Labor</b>	<ul style="list-style-type: none"> <li>Simplification of foreign workers permit to only the Manpower Utilization Plan (RPTKA), with RPTKA’s exemptions applied to Directors/Commissioners owning shares in an Indonesian entity and expatriates working for start-up companies.</li> <li>Only provincial minimum wages shall be applied with considerations on the minimum living wages (municipal and sectoral minimum wages are no longer applied).</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>The Environmental Impact Assessment shall involve the “directly-impacted communities”. Civil society organizations can only be involved if they are part of the directly impacted communities, or have previously engaged in the advocacy works within the community.</li> <li>Removal of the provision of minimum forest area, and give the responsibility to the Ministry of Environment and Forestry to stipulate minimum forest area according to the physical and geographical conditions.</li> </ul>

Since its deliberation process, the Law on Job Creation has been publicly criticized in Indonesia and by opponents of IE-CEPA in Switzerland for its environmental and labor aspects, and for its non-transparent process. Reduction of meaningful participation opportunities and changes in the spatial planning provisions present challenges to social and environmental safeguards, including protection for indigenous people. On the labor aspect, nationwide protests were organized by the labor unions, criticizing that the Law undermines labor rights, such as by the changes in the minimum wages and severance pay. The government has responded to the critics by making the drafts of Implementing Regulations available to public, enabling individuals and civil society organizations to give inputs. Although the 51 Implementing Regulations have been issued, further rule-making is needed, as several issues are delegated to ministerial regulations and further guidance, including at the regional level, will be needed as well.

<sup>6</sup> Government Regulation in lieu of Law 1/2020 on State Financial and the Stability of Financial System Policies for Covid-19 Mitigation

<sup>7</sup> The six sectors are: Class-I narcotics cultivation and industries, all forms of gambling and/or casino activities, illegal fishing of endangered fish species, utilization of coral or natural reefs, chemical weapons manufacturing industries, and industrial chemicals and industrial depleting-ozone industries.

## 2. International and Regional Economic Agreements

### 2.1. Indonesia's trade agreement policy and priorities

The Directorate General of Bilateral Negotiations at the Ministry of Trade identifies 11 ongoing trade negotiations, six of which are targeted to be concluded in 2021: Indonesia-EU CEPA, Indonesia-Turkey CEPA, Indonesia-Pakistan TIGA (upgrading from PTA), Indonesia-Bangladesh PTA, Indonesia-Tunisia PTA, and Indonesia-Iran PTA.<sup>8</sup> The government aims to implement two trade agreements in 2021: Indonesia-EFTA CEPA and Indonesia-Mozambique PTA. For the 2021 outlook, Indonesia has put several developing regions as its potential trade partners, including the South African Customs Union (SACU) and the Southern Common Market (MERCOSUR), while also pursuing an agreement with complimentary trade partners, such as Canada.

### 2.2. Outlook for Switzerland (potential for discrimination)

IE-CEPA is Indonesia's first Comprehensive Economic Partnership Agreement with European countries. However, some sectors remain as challenges for Swiss exporters, such as concerning Halal Law. A Mutual Recognition Agreement (MRA) on foreign halal certification is required for products manufactured, imported, distributed or traded in Indonesia. So far, no European country has concluded such an agreement with Indonesia.

#### 2.2.1. Indonesia – EFTA CEPA (IE-CEPA)

Commission VI (Trade and Investment) of the Indonesian parliament approved Bill on IE-CEPA on 22 March, followed by the parliament's decision to ratify it into Law on 9 April. The Law now waits for the signature of President Widodo, before the instrument of ratification can be deposited. According to the Minister of Trade, the implementation of IE-CEPA is expected to boost the economic recovery during the pandemic, open more investments, develop human resources, and provide more opportunities for the MSMEs to enter the global value chain. With regard to palm oil, the government would push the Indonesia Sustainable Palm Oil (ISPO) certification to be accepted in Switzerland.

#### 2.2.2. Indonesia-Australia CEPA (IA-CEPA)

IA-CEPA has entered into force on 5 July 2020. The agreement also facilitates skill development programs, including by providing internship visas in nine priority sectors: education, tourism, telecommunication, infrastructure development, health, energy, mining, financial services, and information technology and communication. Indonesian government expects the agreement to encourage more exports and investment in the textile and automotive sectors.

#### 2.2.3. Indonesia-South Korea CEPA (IK-CEPA)

IK-CEPA was signed on 18 December 2020 in Seoul. The deal is expected to expand opportunities for Korean companies entering Indonesian service market, particularly in the online game, retail and construction sectors. South Korea is highly interested in making Indonesia its production base in the ASEAN region.

#### 2.2.4. Regional Comprehensive Economic Partnership (RCEP)

RCEP was signed on 15 November 2020 by 15 member countries, including 10 ASEAN countries and five ASEAN FTA Dialogue partners (China, South Korea, Japan, Australia, and New Zealand), after the withdrawal of India in November 2019. RCEP agreement will officially enter into force after at least six ASEAN members and three ASEAN trade partners have submitted ratification documents to ASEAN Secretariat, with the estimation of enforcement the soonest in 2022.

#### 2.2.5. Indonesia-EU CEPA (IEU-CEPA)

The 10<sup>th</sup> round of IEU-CEPA negotiation was conducted virtually on 22-26 February 2021. Discussion on the technical issues and middle-ground for specific issues are the main agenda of the negotiation. On 5 February, Malaysian Prime Minister, Muhyiddin Yassin, has met with President Joko Widodo and both countries have agreed to cooperate in their complaints at the WTO consultation against EU's decision to restrict palm oil for biofuel by 2030.

### 2.3 Negotiations on a Bilateral Investment Treaty with Switzerland

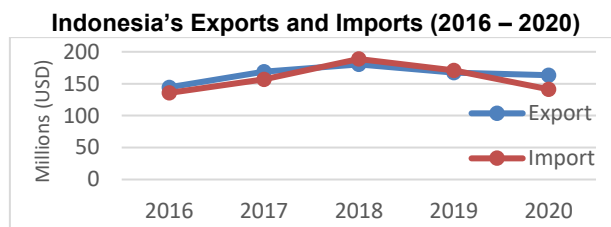
The 6<sup>th</sup> round of negotiation on Indonesia's Bilateral Investment Treaty with Switzerland has taken place end of April 2021.

<sup>8</sup> The other five ongoing trade negotiations are: Indonesia-Mauritius PTA, Indonesia-Morocco PTA, ASEAN Economic Community (AEC), Review of ASEAN-India FTA (AIFTA), and Review of ASEAN-Australia-New Zealand FTA.

## 3. Foreign Trade

### 3.1. Development and general outlook

Indonesia experienced a trade surplus of USD 21.7 million in 2020, although the total foreign trade value decreased by 1.1% yoy. The surplus is mainly due to the deep contraction in imports by 17.34%, while exports decreased by 2.61%. According to the Ministry of Trade, the non-oil & gas sector recorded a major surplus of USD 27.69 billion, while the oil & gas sector experienced a deficit of USD 5.95 billion.



Data Source: Indonesian Ministry of Trade

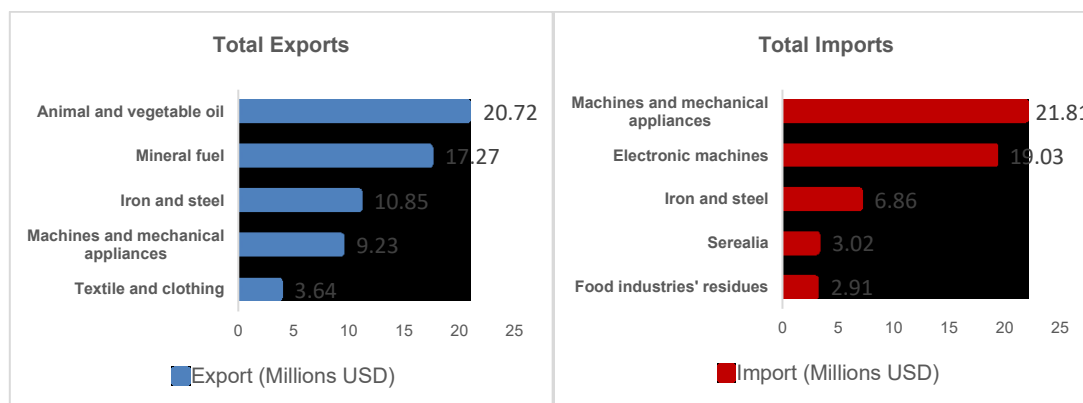
#### Covid-19

In 2020, the Ministry of Trade recorded 37 trade remedies (such as on aluminum, iron and steel) initiated by 14 countries against Indonesia, indicating trade barriers during the pandemic. The Ministry has identified three strategies in 2021: to maintain domestic needs supply and inflation stability, to increase Indonesia's non-oil & gas and non-traditional exports, and to empower MSMEs in the global value chain.

#### 3.1.1. Trade in goods

In the **non-oil & gas sector**, animal and vegetable fats & oil is still Indonesia's leading **export** commodity (USD 20.72 billion). Iron & steel experienced the highest increase in export by 46.84% yoy, which made Indonesia the world's second largest iron & steel exporter after China. On **import**, machinery and electrical equipment (USD 21.81 billion and USD 19.03 billion) are Indonesia's primary import commodities in 2020, which indicates that manufacturing starts to pick up.

#### Indonesia's Trade in Non-Oil & Gas Sector



Data Source: Indonesian Ministry of Trade

China and ASEAN were still Indonesia's main trade partners in 2020. ASEAN continues to be the leading **export** destination, however with a decrease of 14.4%. Exports to China increased by 12%. Meanwhile, exports to Japan and EU countries have declined by 16% and 10.5% respectively. On **import**, China is still the main goods supplier in Indonesia, although the imports value decreased by 13.3% yoy.

#### Indonesia's Main Trade Partners (in Millions USD)

##### Export

Country/Region	Rank	Value (2019)	Value (2020)
ASEAN	1	41'785	36'502
China	2	27'908	31'775
USA	3	17'720	18'620
Japan	4	15'946	13'662
EU	5	14'469	13'098

##### Import

Country/Region	Rank	Value (2019)	Value (2020)
China	1	44'930	39'634
ASEAN	2	39'791	29'832
Japan	3	15'661	10'672
EU	4	12'500	10'184
USA	5	9'261	8'580

Data Source: Indonesian Central Bureau of Statistics (BPS)



### 3.1.2. Trade in services

According to the Ministry of Trade, Indonesia's total trade in services in Q3 of 2020 recorded a deficit of USD 2.6 billion, with exports amounting to USD 2.8 billion and a deficit of USD 5.4 billion in imports. The transportation sector was the hardest hit, particularly due to mobility restrictions during the pandemic.

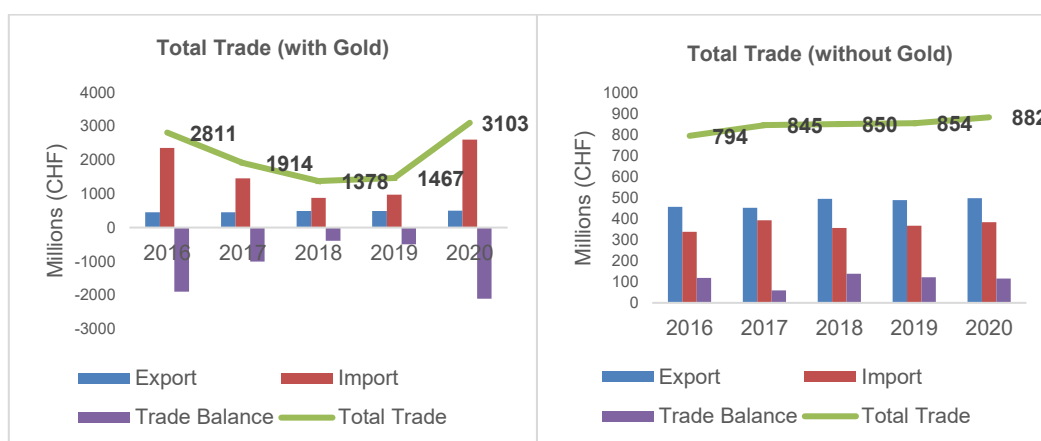
According to [OECD 2020 Services Trade Restrictions Index \(STRI\)](#)<sup>9</sup>, Indonesia's services sectors are still less productive compared with its peers. Indonesia scored 0.6 in STRI, higher than the average OECD countries of 0.2. Indonesia has been implementing extensive reforms in the services sector since 2014, most notably with the reforms on foreign investment regulations in 2015 and 2016. The Law on Job Creation introduced the Positive Investment List by the enactment of Presidential Regulation 10/2021 on Investment Business Fields, which encourages more business fields to become open to investment.

## 3.2. Bilateral Trade

### 3.2.1. Trade in goods

Switzerland-Indonesia bilateral trade (without gold) has been increasing steadily by 3.2% (CHF 882 million) in 2020, while the total trade (with gold) recorded a very significant increase of 111.5% (CHF 3'103 million). Swiss exports increased by 2% yoy, and Swiss imports from Indonesia spiked by 166.1% (with gold) and by 4.6% (without gold) yoy.

CH-ID Total Trade (2016 – 2020)



Data Source: Swiss Federal Customs Administration

The Indonesian Ministry of Trade has identified Switzerland as the top 20 export destinations (by country) in 2020. According to the list, Switzerland is the third European export destinations after the Netherlands and Germany. Indonesia's export share value to Switzerland accounts for 1.47% of the total trade, with the import share value of 0.48%. The Ministry classifies trade data based on the oil & gas and non-oil & gas sectors; thus the statistics are different compared with Switzerland's perspectives.

Indonesia – Swiss Bilateral Trade (2016 – 2020)

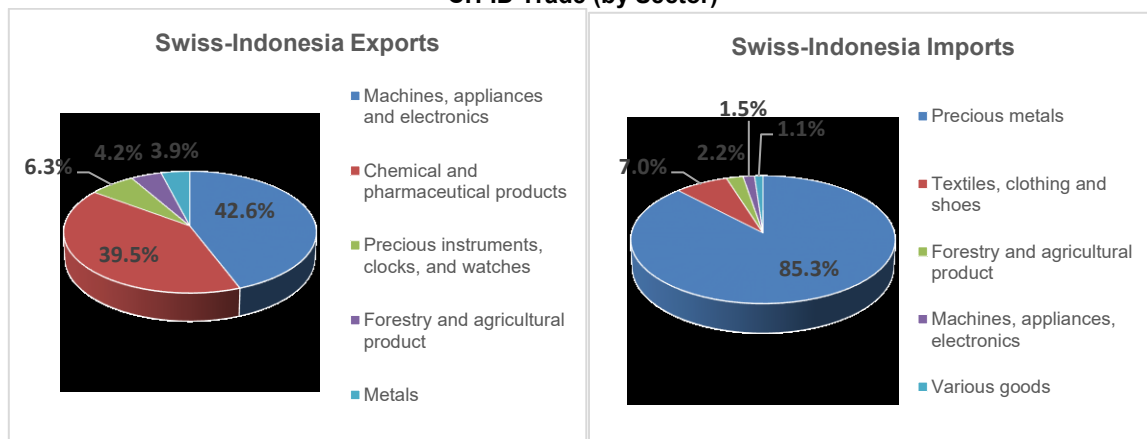
Description	2016	2017	2018	2019	2020
Total Trade	2'922	2'054	1'544	1'436	3'099
Total Export	2'199	1'244	670	740	2'398
Total Import	722	809	874	696	701
Trade Balance	1'477	435	-204	44.8	1'697

Data Source: Indonesian Ministry of Trade

By sectors, machines, appliances and electronics (42.6%) were still Switzerland's primary exports to Indonesia in 2020, followed by chemical and pharmaceutical products (39.5%). On Switzerland's imports from Indonesia, precious metals registered a tremendous growth in 2020 to CHF 2'222 million from only CHF 613 million in 2019, and accounted for 85.3% of the total imports. According to the Indonesian Ministry of Trade, precious metals exports grew by 24.2% yoy, with Switzerland as the second main export destination (30%), after Singapore (37%), and followed by Japan (12%)

<sup>9</sup> The STRI index takes value between zero and one, one being the most restrictive. The index is based on laws and regulations in force on 31 October 2020.

### CH-ID Trade (by Sector)



Data Source: Swiss Federal Customs Administration

#### 3.2.1.1. Selected key sectors for Swiss companies

As part of the government commitment to infrastructure and connectivity, reviving the manufacturing industry is expected in the near future. By the end of 2020, Indonesia Investment Coordinating Board (BKPM) reported an increase of the manufacturing sector's investment by 23.9% yoy. The construction has booked outstanding growth during the year 2020 amidst the economic contraction due to the pandemic. Among other opportunities, these are key emerging opportunities contributing to Indonesia's economic growth over the next 2-3 years:

##### Manufacturing

Indonesia's manufacturing industry is the 12<sup>th</sup> largest in the world. The inflow of investments has contributed to an upgrade and diversification of development concentrated on the main island of Java, where manufacturers can benefit from more efficient logistics and transport infrastructure.

The recovering trends in the manufacturing sector are expected to continue for export-oriented industries: Automotive, Chemicals & Pharmaceuticals, Electronics, Food & Beverages, Textile & Garments. The Indonesian government is targeting 4% growth in the manufacturing sector in 2021.

##### Fast Moving Consumer Goods (FMCG)

With household consumption expenditure doubling between 2009 and 2019 to reach USD 648 billion, the FMCG sector such as Fine Food and Natural Wellbeing showcase good opportunities. The market is characterized by upward trends in the desire for health-consciousness and interest in high-end brands.

The business growth of Dietary and Health supplements is projected to reach a compound annual growth rate (CAGR) of 5.98% from 2019 to 2026. The highest demand comes especially from immune-boosting supplements such as vitamin C, vitamin E, and zinc-based supplements. During the pandemic, products containing medicinal herbs such as turmeric and ginger gained high demand as considered preventing the growth of viruses.

##### Digital Health

A combination of inadequate geographical coverage, shortage of medical professionals and high digital uptake makes Indonesia a high-potential market for digital health solutions. Digital health revenues are expected to increase to USD 973 million in 2022 from USD 85 million in 2017 at a CAGR of over 60%.

Private sector has more initiatives and is open for partnerships regarding the development of Telemedicine, Artificial intelligence, Sensors and Robotics to improve the promptness and accuracy of medical diagnostics and consultations in the primary care.

##### Financial Technology (Fintech)

Digital financial services revenue is projected to rise to USD 8.6 billion by 2025. It is predicted on strong willingness to embrace digital wallets, digital payment and corporate digitalization, especially since the pandemic situation. The peer-to-peer (P2P) lending increased by 37 times between December 2017 and February 2020.

#### 3.2.2. Trade in services

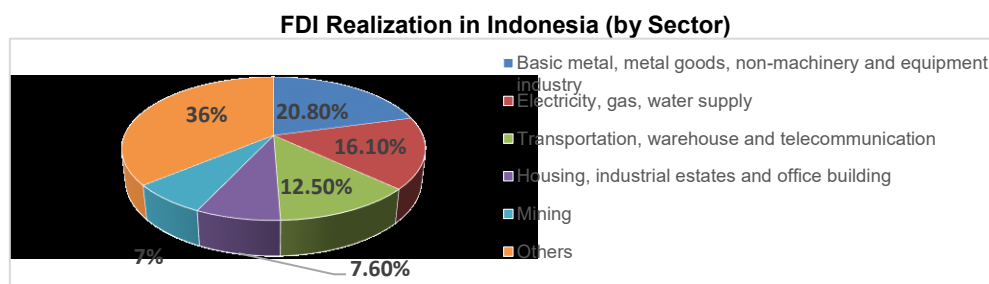
No recent and official bilateral trade in services data between Indonesia and Switzerland are available at the moment. The implementation of IE-CEPA is expected to enhance bilateral trade in services, such as insurances, where Swiss companies have a strong footprint in Indonesia.



## 4. Direct Investment

### 4.1. Development and outlook

In 2020, Indonesia recorded an increase of 2.1% in the total investment realization USD 58.7 billion<sup>10</sup> (IDR 826 trillion), consisting of 49.9% DDI and 50.1% FDI, which grew by 7%. Singapore (34.1%), China (16.7%), and Hong Kong (12.1%) are the top three foreign investors in 2020. By sector, basic metal, metal goods, non-machinery and equipment industry accounted as the largest FDI sector by 20.8% (USD 6 billion). Java region (49.5%) is still the center of FDI realization, followed by Sumatra and Sulawesi. The government has emphasized the commitment to improve the availability of infrastructure, particularly outside the Java region, to attract more investment projects.



Data Source: Indonesian Investment Coordinating Board (BKPM)

### Covid-19

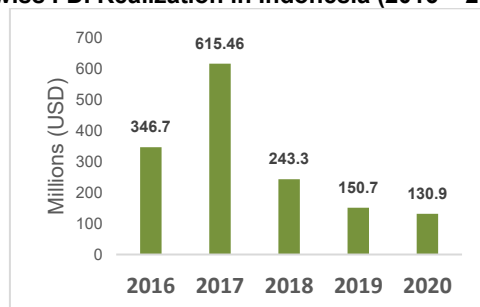
Indonesia's investment realization in 2020 has surpassed BKPM revised investment targets for 2020-2024 due to the Covid-19 impact. The performance successfully absorbed 1'156'351 workforces through 153'349 investment projects. Furthermore, Law on Job Creation transforms the government's investment approach from 'restricting businesses' to 'encouraging priority businesses', by the introduction on Positive Investment List and Priority Business Fields. By the new regulatory framework, President has set the [investment realization target](#) of USD 64 billion<sup>11</sup> (IDR 900 trillion) in 2021.

### 4.2. Bilateral investment flows

BKPM reported that Switzerland's investment in Indonesia ranked 17<sup>th</sup> (USD 130.9 million) in the global FDI 2020, decreased from USD 150.7 million in 2019 (rank 19<sup>th</sup>). Switzerland was the fifth largest European investors in Indonesia, after the Netherlands, Luxembourg, United Kingdom, and Germany. The main sectors were chemicals and pharmaceuticals, food, warehousing, logistics and distributions and infrastructure projects. Most Swiss FDI was recorded in Jakarta Province (156 projects), with an investment value of USD 17.2 million. The highest Swiss investment value in 2020 was in Banten Province, worth USD 39.85 million (52 projects).

In Q1 of 2021, Switzerland entered [rank 5<sup>th</sup>](#) for the first time in Indonesia's top foreign investors' list. The investment value amounted to USD 0.5 billion with food & beverages sector contributed the most.

**Swiss FDI Realization in Indonesia (2016 – 2020)**



Source: Indonesian Investment Coordinating Board (BKPM)

The Indonesian statistics differs greatly from Switzerland's perspectives. According to the Swiss National Bank, Switzerland's FDI realization in Indonesia amounted to CHF 1'691.5 million in 2019.<sup>12</sup> In general, investments in services, such as banking and insurances, are not captured by BKPM. Hence, several major investments made by Swiss companies in Indonesia were excluded in the data, for instance Zurich's acquisition of Adira Insurance amounting to USD 0.5 billion. The accumulated Swiss capital stock in Indonesia at the end of 2019 was more than USD 6.5 billion, according to SECO and Economiesuisse.

<sup>10</sup> Exchange rate: USD 1 equals to IDR 14'083, as of 25 January 2021

<sup>11</sup> Same exchange rate as above

<sup>12</sup> State Secretariat for Economic Affairs (SECO), *Indonesien Fiche 2021*

## 5. Swiss Trade, Economic and Touristic Promotion

### 5.1. Swiss Economic Promotion Instruments (“Country advertising”)

#### 5.1.1. Swiss Business Hub (SBH) Indonesia

As the representative of Switzerland Global Enterprise (SGE), the official international trade and investment promotion organization of the Swiss Federal government, [Swiss Business Hub \(SBH\) Indonesia](#) plays an important role in assisting and showcasing Swiss and Liechtenstein SMEs to develop their international businesses and why the timing is right to look at Indonesia. With an extensive network of experts, SBH implements its mandates by providing various services, such as market analysis and regulatory clarifications. SBH Indonesia has identified four key business sectors for export opportunities and these are: Manufacturing, Fast Moving Consumer Goods (FMCG), Digital Health, and Financial Technology (Fintech). In 2020, SBH Indonesia has participated in many substantial activities, such as in SGE Go Global Days on “Indonesia as an example of Asian value chain diversification”, and several webinars with business associations in both countries on digital health and IE-CEPA.

#### 5.1.2. Switzerland Tourism

Tourism is one of the fields that is hardest hit by the pandemic. Despite different lifts of entry restrictions into Switzerland in 2020, Indonesia was not included in the list of countries allowed to enter Switzerland for leisure since the lockdown in mid-March. Consequently, there was an 86.1% decline in arrivals compared to 2019 and 85.3% in overnight stays with the numbers amounting to 7'831 and 14'870 respectively.

Switzerland already has a reputation for being clean and safe. To strengthen guests' confidence in Switzerland as a holiday destination in light of the pandemic, Switzerland's tourism industry associations created “[Clean and Safe](#)” labels. Specific labels are available for a total of six industries: hotels, restaurants, navigation companies, cable cars, public transportation and meeting facilities. When visiting tourism establishments, the labels show guests that the service providers are complying with safety protocols. When appropriate, the labels are mentioned in any marketing activities in Indonesia to demonstrate Swiss tourism industry's commitment

Switzerland Tourism Indonesia conducted various virtual marketing activities with the travel trade and media partners to stay connected and keep Switzerland at travelers' top of mind, such as webinars, virtual tours, media interviews, social media campaign and influencer collaboration.

#### 5.1.3. Swiss Economic Development Cooperation in Indonesia (SECO)

Indonesia is a priority country of SECO. Through its Economic Cooperation and Development Program 2021-2024, SECO supports Indonesia in becoming a more competitive, resilient, and equitable economy. SECO will provide CHF 65 million in grant funding for high quality technical assistance in sectors in which Switzerland has proven expertise and where Indonesian demand is highest.

The Cooperation Program fully aligns with Indonesia's 2020-2024 Medium-Term Development Plan, as well as the UN's 2030 Agenda for Sustainable Development. The President's five development priorities for his second term are: (1) infrastructure development, (2) human capital development, (3) investment climate reforms, (4) bureaucratic reform, and (5) more efficient use of the state budget.

The Cooperation Program 2021-2024 focuses on two main areas: (1) fostering **effective public institutions**, particularly in urban areas and (2) strengthening **private sector competitiveness**. Special attention will be given to small and medium-sized enterprises, as they are the main drivers of job creation. In line with Indonesia's development priorities, the Swiss technical assistance will focus on vocational education and training, urban development, tourism, public financial management, as well as sustainability, including in commodity sectors such as palm oil and other export-oriented commodities. Gender equality and climate change are transversal themes, which guide the Swiss engagement.

#### Main results achieved

- SECO assisted the Ministry of Finance in developing key reforms and strategies, in particular the **Public Financial Management (PFM) Reform** Road Map and Digital Transformation Strategy, which help Indonesia to “collect more and spend better”. SECO has also contributed to the broadening of Indonesia's tax base. Individual income taxpayers have increased from 8.8 million in 2008 to 38.6 million in 2018; corporate income taxpayers have risen from 1.4 million in 2008 to 3.1 million in 2018.
- SECO also contributed to the establishment of **sustainable value chains**. Through targeted export promotion services, SECO assisted Indonesia in exporting *pangasius* to the Middle East for the first time. This led to an estimated annual export turnover of USD 36 million. In the cocoa sector, SECO facilitated the training of more than 160,000 cocoa farmers in sustainable agricultural practices, which has led to a 49% increase in farmers' yields.

- SECO has successfully supported Indonesia in ***narrowing its infrastructure gap*** by leveraging financing and providing capacity building at the subnational level. A provision for a nationwide framework for sustainable urban transport has been developed and incorporated into Indonesia's national medium-term development plan 2020–2024. In addition, SECO provided technical assistance and supported capacity-building activities for the first sanitary landfills, which are now under construction in four cities, in order to jump-start sustainable waste management systems in Indonesia. Moreover, sustainable urban transportation systems were kick-started by conducting feasibility studies in 4 cities for the development of Bus Rapid Transit (BRT) systems.
- Through ***direct collaboration with SMEs***, SECO improved working conditions for more than 400,000 employees and introduced cleaner production practices in 150 companies to reduce waste and pollution. SECO also contributed to improved business practices and expanded financial access for micro, small and medium-sized enterprises (MSME) by linking them to financial institutions and promoting responsible finance principles. In addition, SECO launched a third skills development project in the renewable energy sector. This will bring the total number of partner polytechnics to more than 10.

The pandemic will alter Indonesia's development outlook and may even disrupt the country's five-year development plan. Through its Cooperation Program, Switzerland is committed to assist Indonesia in addressing pandemic-related economic challenges, for example:

- SECO's technical assistance in the area of public financial management will support Indonesia in using public funds more efficiently and help develop reforms that support a sustainable and inclusive economic recovery.
- The Program will continue to support Indonesia in preparing solid infrastructure projects that will be able to leverage much needed private investment.
- SECO will also assist Indonesia in upgrading policy frameworks to spur investments and continue to support skills development to ensure that the labor force is equipped with skill sets needed to take advantage of the Industrial Revolution 4.0.
- And finally, SECO will also focus on developing sustainable value chains, particularly in the tourism sector, which was hit hardest by the pandemic.

#### 5.1.4. Swiss Chamber of Commerce (SwissCham)

With approximately 70 members, the [Swiss-Indonesian Chamber of Commerce](#) (SwissCham) focuses actively on four Sectoral Groups: Ease of Doing Business; Fiscal, Custom and Excise; Human Capital Development, and Sustainability & Innovation, which allow their members to work collaboratively to address business or regulatory issues with the support of the Swiss Embassy. Amidst the challenges, SwissCham continues to thrive as the resource for Swiss companies in navigating their businesses, such as by conducting webinars on various topics that are important for the Swiss companies and by providing updates on IE-CEPA.

#### 5.1.5. Swiss Centre Indonesia (SCI)

[Swiss Centre Indonesia](#) is owned and managed by Swiss individuals with years of experience in running successful businesses in Indonesia and in diverse fields such as sales, services, manufacturing, and trading. The SCI delivers one-stop solution services to Swiss SME's for a "hassle free soft-landing" at affordable conditions and according to Swiss quality standards. The main advantage is to have immediate access to in-house services like accounting, tax & audit, recruitment & general HR matters, legal assistance, license management or even warehousing or light manufacturing opportunities.

### 5.2. Interest in Switzerland as location for tourism, education and other services

The Swiss Embassy in Indonesia issued **2'441 visas** in 2020, a decrease of 79% yoy. 67% of the Schengen Visa were for tourism, 10% for business and 9.8% for visiting family/friends.

The Swiss Government Excellence Scholarship 2021/2022 opening was received with great enthusiasm from doctoral and post-doctoral candidates from Indonesia. One doctorate scholar received the scholarship for the 2021/2022 intake.

Switzerland is a vibrant and growing hub for Fintech innovation with supportive regulatory environment. After its shares were listed on the Swiss Stock Exchange (SIX), Indonesian game payment services company Achiko decided in June 2020 to [move its headquarters to Zurich](#), and rename the company to Achiko AG. The move to Zurich aims to strengthen Achiko's presence in Europe. In Switzerland, Achiko has agreed on partnerships with Hypothekarbank Lenzburg and Sonnect, a start-up from Zurich.

## APPENDIX 1: Economic structure

Sector (% of GDP) <sup>1</sup>	2016	2017	2018	2019	2020
Agriculture, livestock, fisheries and forestry	13.5	13.1	12.81	12.7	13.7
Mining and Quarrying	7.6	7.6	8.1	7.3	6.4
Manufacturing Industry	20.5	20.2	19.86	19.7	19.9
Services	58.4	59.1	59.23	60.3	60
Total	100	100	100	100	100

Employment by Sector (%) <sup>2</sup>	2016	2017	2018	2019	2020
Agriculture	32	31	30.5	30	25
Industry	21	22	22	22	15
Services	47	47	47.5	48	38
Total	100	100	100	100	79

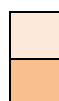
Sources:

<sup>1</sup> Indonesian Central Bureau of Statistics

<sup>2</sup> as estimated by the World Bank in [Indonesia Economic Prospects](#), December 2020. The World Bank estimates that there are changes in the employment status of 21-22% of the total employment change (not working or temporarily change to the other sector).

## APPENDIX 2: Main economic data

	2017	2018	2019	2020	2021
<b>Wirtschaftswachstum (% des BIP)<sup>1,2</sup></b>	5.1	5.2	5.0	-2.1	4.8 <sup>1</sup> 4.4 <sup>2</sup>
<b>BIP (USD Mrd.)<sup>3</sup></b>	1'015.5	1'042.1	1'119	1'058.9	1'107.1
<b>BIP/Einwohner (USD)<sup>5</sup></b>	3'880	3'840	3'986	4'042	3'917
<b>Inflationsrate (%)<sup>3</sup></b>	3.3	3.13	2.8	1.68	2.1
<b>Arbeitslosenrate (%)<sup>3</sup></b>	5.4	5.5	5.2	7.1	6.6
<b>Leistungsbilanz (% des BIP)<sup>3</sup></b>	-1.7	-3.0	-2.7	-4.7	-1.5
<b>Handelsbilanz (USD Mrd.)<sup>3,4</sup></b>	18.9	-430	3.5	21.7 <sup>4</sup>	32.8
<b>Haushaltsbilanz (% des BIP)<sup>3</sup></b>	-2.7	-1.9	-2.2	-6.1	-6.8
<b>Staatsschuld (% des BIP)<sup>1,2</sup></b>	29.0	30.1	30.5	37.5	40.1
<b>Aussenschuld (USD Mrd.)<sup>1</sup></b>	335.4	382.2	403.5	416.6	446.9
<b>Internationale Reserven (USD Mrd.)<sup>1</sup></b>	127.6	120.6	129.2	135.9	152.3



Schätzungen

Prognose

Sources:

<sup>1</sup> IMF Country Report, March 2021

<sup>2</sup> World Bank, [Global Economic Prospects](#), January 2021

<sup>3</sup> Economist Intelligence Unit (EIU), Country Report Indonesia, March 2021

<sup>4</sup> Indonesian Ministry of Trade

<sup>5</sup> [CEIC Data](#), accessed on 31 May 2021.

## APPENDIX 3: Indonesia Main Export and Import Partners

### Indonesia's Main Export Partners in 2020

No.	Country/ Region	Value (USD Billion)	% of total	% change
1	ASEAN	36.5	22.3%	-14.5%
2	People Republic of China	31.7	19.4%	12%
3	United States of America	18.6	11.4%	4.9%
4	Japan	13.6	8.3%	-17%
5	European Union	13.1	8%	-10.7%
6	South Korea	6.5	4%	-10.8%
7	Taiwan, Province of China	4.1	2.5%	2.4%
8	Australia	2.5	1.5%	8%
9	Switzerland*	2.4	1.5%	70.8%
10	Hong Kong	2	1.2%	-25%
11	Canada	0.8	0.5%	0%
12	Others	31.5	19,3%	
	Total	163.3	100.00	

### Indonesia's Main Import Partners in 2020

No.	Country/ Region	Value (USD Billion)	% from total	% change
1	People Republic of China	39.6	28%	-0.13%
2	ASEAN	29.8	21%	-32%
3	Japan	10.7	7.5%	-45.8%
4	European Union	10.2	7.2%	-21.6%
5	United States of America	8.6	6%	-0.7%
6	South Korea	6.8	4.8%	-23.5%
7	Australia	4.6	3.2%	-19.6%
8	Canada	1.6	1.1%	-12.5%
9	Others	29	20.7%	
10	Switzerland*	0.7	0.5%	0
	Total	141.6	100.00	

Note:

- Source on Swiss-Indonesia trade data: Indonesian Ministry of Trade
- Source of Indonesia and other countries' trade data: Indonesian Ministry of Trade

## APPENDIX 4: Indonesia-Switzerland Trade Development

Period	Import (in million CHF)		Export (in million CHF)		Balance (in million CHF)	
	Value	Change +/- %	Value	Change +/- %	Value	Change +/- %
2011	184	18.4	497	17.8	313	17.4
2012	279	51.8	457	-8.1	178	-43.3
2013	318	13.8	619	35.5	301	69.7
2014	321	0.9	654	5.6	333	12.2
2015	1'376	328.6	582	-11	-794	-338.4
2016	2'355	71.1	456	-22	-1'899	43.5
2017	1'485	-36.9	459	0.33	-1026	-43.8
2018	870	-33.3	486	5.8	-384	-44.1
2019	979	10.7	488	-1.2	-491	-21.8
2020	2'605	166.1	498	2.1	-2'107	-76.6

### Swiss Export to Indonesia 2020 (Source: Swiss Federal Customs Administration)

Sector	Export (in million CHF)	Change +/- %	% sectoral export to total export
Machines, appliances, electronics	212.2	21%	42.6%
Products of the chemical and pharmaceutical industry	196.9	1.5%	39.5%
Precision instruments, clocks and watches and jewellery	31.4	-23.7%	6.3%
Forestry and agricultural products, fisheries	20.8	-5.5%	4.2%
Metals	19.6	-32.5%	3.9%
Leather, rubber, plastics	5.1	-27.5%	1%
Paper, articles of paper and and products of the printing industry	4.8	-54.7%	1%
Textiles, clothing, shoes	4.7	-15.1%	1%
Various goods such as music instruments, home furnishings, toys, sports equipment, etc.	1.5	62.5%	0.3%
Vehicles	0.8	-46.6%	0.2%
Stones and earth	0.2	-67.5%	0.04%
Precious metals, precious and semi-precious stones (including gold and silver bars from 1.1.2012)	0.03	-98.4%	0.006%
Energy source	0.03	-40.1%	0.006%
Works of art and antiques	0.03	-71.2%	0.006%
TOTAL	498.3		100%

### Swiss Import from Indonesia 2020 (Source: Swiss Federal Customs Administration)

Sector	Import (in million CHF)	Change +/- %	% sectoral import to total import
Precious metals, precious and semi-precious stones (including gold and silver bars from 1.1.2012)	2'221.9	262.5%	85.3%
Forestry and agricultural products, fisheries	57.1	12.9%	2.2%
Machines, appliances, electronics	39.6	-2.2%	1.5%
Various goods such as music instruments, home furnishings, toys, sports equipment, etc.	29.4	11.3%	1.1%
Products of the chemical and pharmaceutical industry	26.4	-4.5%	1%
Leather, rubber, plastics	24	22.9%	0.9%
Vehicles	8.8	128.9%	0.3%
Metals	7.6	-14.1%	0.3%
Precision instruments, clocks and watches and jewellery	4.6	-57.8%	0.2%
Stones and earth	1.9	32.6%	0.07%
Paper, articles of paper and and products of the printing industry	0.6	-40.4%	0.02%
Energy source	0.4	73.1%	0.01%
Textiles, clothing, shoes	0.2	4.3%	0.008%
Works of art and antiques	0.1	-55.1%	0.004%
TOTAL	2'605.2		100%



## APPENDIX 5: FDI Realization in Indonesia

Period: 1 Jan 2019 to 31 December 2020

Rank*	Country	2019	
		Investment Value (in million USD)	Projects
1	Singapore	6'509.6	7'020
2	China	4'744.5	2'130
3	Japan	4'310.9	3'825
4	Hong Kong	2'891.0	1'508
5	Netherlands	2'596.8	1'345
6	Malaysia	1'357.5	1'682
7	South Korea	1'070.2	2'952
8	USA	989.3	788
9	British Virgin Islands	743.8	1'392
10	Australia	348.2	1'049
11	Thailand	342.8	225
12	Seychelles	228.6	110
13	Germany	189.3	533
14	Canada	186.3	123
15	Taiwan	181.1	546
16	Cayman Islands	175.6	137
17	France	167.4	723
18	Marshall Island	154.6	34
19	Switzerland	150.7	34
20	United Kingdom	142.1	324
	Rest of the world	728.5	3'874
Total		28'208.8	30'354

Rank*	Country	2020	
		Investment Value (in million USD)	Projects
1	Singapore	9'779.1	15'088
2	China	4'842.4	3'027
3	Hongkong	3'535.9	2'789
4	Japan	2'588	8'817
5	South Korea	1'841.9	5'468
6	Netherlands	1'422.4	2'537
7	Malaysia	1'045.3	3'283
8	USA	749.7	1'471
9	Taiwan	454.3	948
10	Australia	348.6	1'562
11	British Virgin Islands	334.3	1'416
12	Luxembourg	209.2	356
13	England	192.8	1'386
14	Cayman Islands	182.9	254
15	Canada	175.3	255
16	Germany	143.6	1'008
17	Switzerland	130.9	554
18	Bermuda	122.3	30
19	Mauritius	112.3	330
20	Thailand	112.1	410
	Rest of the world	361	5'737
Total		28'666.3	56'726

Source: Indonesian Investment Coordinating Board (BKPM)

\*Rank based on the BKPM FDI ranking in 2019 and 2020