

Country analysis for Indonesia

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Date

Executive summary

Indonesia as one of the strongest emerging markets in the South-East Asia with a competitive and strong economic growth proves to be the best country for carrying out the investment. The growth of the nation has had dependency on the relative exploitation of the existing natural resources. This maintains the challenge to the balance of reducing the emission of carbon by a relative margin of 26%. In the consideration of political stability and situation, the leadership of the country has managed to encompass stability culture with strategies that are counter-productive to the business culture. Integrative models show that the leadership culture in Indonesia has undergone implementations with the incorporation of democracy aspect to encompass different cultural differences. The investment opportunities in every sector of the Indonesia investment industry offer a good investment potential. Minerals and mining sector of the country has undergone improvisation to attract investments with higher ratings.

Country analysis for Indonesia

Country's Macro Environment

As one of the strongest emerging markets in the South-East Asia with a competitive and strong economic growth, Indonesia proves to be the best country for carrying out the investment. It is the world's most populous ranked at number four, sized with archipelago of 17,000 islands across specified three time zones. It has the third largest democracy globally with the majority of the citizens being Muslims. The country has an affluent middle class consisting of 45 million people and still growing. The country is amongst the nations that produce carbon in larger percentages with a major focus on deforestation. The projections suggest that the energy sector is to replace deforestation following the aspect of causing emissions¹.

Following the fall of the Suharto thirteen years down the line, Indonesia has proven to have stability, vibrant free press, open democracy and an active civil society with an economy that is rapidly approaching the grade of investment growing around 6% yearly. The country is to be the middle-income country having an average per capita income amounting to \$4,000 Pa by the year 2015². This is the representation of the beacon of stability in Asia. The country has also strategized measures to counter the aspect of poverty following the introduction of procedural measures to create employment opportunities through foreign investment in the

¹ Machmud, Tengku Nathan. 2000. *The Indonesian production-sharing contract: an investor's perspective*. The Hague, the Netherlands [u.a.]: Kluwer Law International.

² Machmud, Tengku Nathan. 2000. *The Indonesian production sharing contract: an investor's perspective*. The Hague, the Netherlands [u.a.]: Kluwer Law International.

production industry. The business environment of Indonesia is to counter the economic crisis that may result into the breakdown of the country's civil governance³.

The country has been the target of various companies and private investors following the strapping economic expansion. This is with a relative political stability that has given people confidence in the general market framework. Indonesia has undergone an expansion of the domestic product with more than 5% over the past few years. The provision of education and health is undergoing modernization with a corresponding improvement in infrastructure. The country is also in the verge of neutralizing the aspect of corruption, erratic rule of law and weak institutions. The maintenance of competitiveness with the achievement of double-digit growth forms the real take off foreign investment⁴.

The growth of the nation has had dependency on the exploitation of the natural resources that maintain the challenge to the balance of reducing the emission of carbon by a relative margin of 26%. In the consideration of political stability and situation, the leadership of the country has managed to encompass stability culture with strategies that are counterproductive to the business culture. Integrative models show that the leadership culture in Indonesia has undergone implementations with the incorporation of democracy aspect to encompass different cultural differences. The leadership influence tactics are viewable from the perspective of cultural and ethical aspects.

³ Machmud, Tengku Nathan. 2000. *The Indonesian production sharing contract: an investor's perspective*. The Hague, the Netherlands [u.a.]: Kluwer Law International.

⁴ Asian Development Bank (ADB). (2007). *Environmental Strategies in Country Operational Strategy Study for Indonesia*. Draft. Manila.

The economic fundamentals of Indonesia have remained to be strong following the incorporation of inward foreign investment. The investment realized from the foreign countries has climbed with a 50% increment. This is a reflection of the country's attractiveness as the center for investment destination with a larger market consisting of 240 million different people. This aims at the expansion of middle class, wealth of the country's natural resources with the strategic location. The country's local currency ratings have recently undergone upgrading by Fitch Ratings Agency to investment grade. This move has the significance of boosting the country's stand amongst the global investors inclusive of Canadian company⁵.

The government of Indonesia has most of its focus to ensure that there is macro-economic stability in the country suitable for investment. It is significant for the government to continue strategizing reform programs to strengthen its fundamentals in macroeconomic aspect. Indonesia is in the verge of building a physical and financial capital for complementing the existing young and dynamic workforce. It is concentrating towards the development of stronger markets for the intermediate domestic savings. This is to ensure that there is capital inflows application with the provision of incentives meant for promoting investment in sectors prioritized⁶.

For the facilitation of investment, Indonesia has managed to put into action a law that will provide greater certainty towards the accessibility of land, addressing of the public-

⁵ Machmud, Tengku Nathan. 2000. *The Indonesian production sharing contract: an investor's perspective*. The Hague, the Netherlands [u.a.]: Kluwer Law International.

⁶ Asian Development Bank (ADB). (2007). *Environmental Strategies in Country Operational Strategy Study for Indonesia*. Draft. Manila.

private political infrastructure projects risks, and enhancing the availability of funding. This is to be long term to finance infrastructure projects meant to last longer⁷.

Indonesia has also ensured that there is stability and business related conditions following the utilization of natural resources. The total primary energy consumptions amount to over 50% in growth for subsequent years. Petroleum accounts for the major vital, share of the country's energy mix necessary for the production industry success. The consumption of coal has tripled and surpassed the use of natural gas in production. The country has also managed to sustain a stronger economic performance. This follows the progress of the global recession having an average GDP rate of growth under 6% annually for the last six years⁸.

The combination of the Indonesia's market reforms, healthy growth, and a stable government encourages the possibility of rapid investment with specifications to the commodity sector. The ratings of the country's current analysts have managed to upgrade the sovereign risk ratio that relates to the investment grade of the country status. Culture issues in Indonesia with specifications to masculinity level scores an average of 46 that relatively affects the degree of decentralization and formalization. This is in consideration to the organizational structure of the country's production industry such as the process of selection⁹.

Factor endowments

Although the generation capacity of Indonesia has undergone an increment, the

⁷ *Indonesia Financial System Stability Assessment*. 2010. [Washington, DC]: International monetary fund (IMF).

⁸ *Indonesia Financial System Stability Assessment*. 2010. [Washington, DC]: International monetary fund (IMF).

⁹ *Indonesia Financial System Stability Assessment*. 2010. [Washington, DC]: International monetary fund (IMF).

country still experiences a lower electrification ratio in comparison to the similar income countries. The government has managed to put an effort to keep up with the demanding growth of electricity. This is due to the pace of demand lowering grid-connected areas experiencing power shortages. This is with the significant aim of encouraging investment following the consistent accessibility to power. The country's sufficient generation as encouraged by the adequate supporting infrastructure, unsubsidized tariffs, land use permissions accessibility, and the certain regulatory environment.

Indonesia has also established an effort to increase its economic growth to enable the attraction of continued foreign investment inclusive of its minor sectors. The action taken by the central bank of Indonesia to moot the setting caps of the single shareholders' stakes in the commercial banks is significant. The move aims at the foreign investment with regulatory reforms with re-commitment to open up the foreign strategic economic policy. Indonesia is hence one of the emerging regional competitors amongst the Asian economies in foreign investment. The lifting of Indonesia debt rating to the grade status of investment is to improve the Indonesia aspect of foreign capital attraction¹⁰.

Analysis

The investment opportunities in every sector of the Indonesia investment industry offer a good investment potential. Minerals and mining sector of the country has been under progressive improvisation to attract investment with higher ratings. The commodity sector has a higher rating compared to the infrastructure in the context of establishing a commodity

¹⁰ *Indonesia Financial System Stability Assessment*. 2010. [Washington, DC]: International monetary fund (IMF).

sector for foreign investment. The foreign investment will enjoy a favorable return through meeting the demands for commodities that are virtually insatiable from growing the country's economy¹¹.

Conclusion

The company investment in Indonesia will be successful following the strapping economic expansion. This is with a relative political stability that has given people confidence in the general market framework. Indonesia has undergone an expansion of the domestic product over the past few years to serve as an advantage to the investment. The provision of education and health undergoing modernization with a corresponding improvement in infrastructure also proves as a significant ground for investment. The country is also in the verge of neutralizing the aspect of corruption, erratic rule of law and weak institutions to create common ground for a successful investment. The maintenance of competitiveness with the achievement of double-digit growth forms the real progress of the company's investment.

Recommendations

The investment of the company in Indonesia along with trade globalization incorporates economic elements of the modern commerce inclusive of goods, labor, capital, and service to span the country's business success.

¹¹ *Indonesia Financial System Stability Assessment*. 2010. [Washington, DC]: International monetary fund (IMF).

The company's capital internationalization with the major form of direct investment should be the finest frequent. This includes contents in two dimensions: investor structure and an enterprise of investment organization structure.

The company is to consider supplementing of the internationalization to develop the network operation with transition of investing and promote foreign operations is considerable. This is to improvise on investment competition advantage.

The investment in Indonesia is to involve the transfer of technology capacity and domestic superfluous production and foreign resource development.

Before the investment, company is to carry out studies on Indonesia technology, marketing, and management experience. Exploring the Indonesia market to drive export and speeding up the development of the economy is also significant.

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