

**The White Paper for Taiwan Enterprises' Business
and Investment in Indonesia**

Indonesia Taiwanese Chambers of Commerce

Asia Taiwanese Chambers of Commerce

World Taiwanese Chambers of Commerce

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Abstract

The first official records of Taiwan enterprises investing in Indonesia go back to the 1970s and although their investment has been less than that from Singapore, Japan and other countries, when others rushed to adjust investment policy and in many cases withdrew, following the Asian financial crisis in 1997, more than a few Taiwan enterprises continued to invest. In other words, such companies have invested in Indonesia for more than 40 years, with many putting down deep roots and cultivating a second generation of business leaders to such an extent that the country has become a home away from home.

Taiwan enterprises have always been hard working producers and many in Indonesia are engaged in export processing manufacturing, through which they employ large numbers of local workers, create employment opportunities and improve living standards. At the same time, the firms do not compete with local small and medium enterprises, but rather focus on exports and market expansion, which brings in foreign exchange for Indonesia. As a result of the investment and hard work of these enterprises, the industry chain in Indonesia has become increasingly extensive and the number of technical personnel increased, establishing an excellent foundation for the future attraction of foreign investment.

Taiwan enterprises have grown together with Indonesia and for four decades the investment environment in the country has continued to improve, infrastructure has expanded and people have become increasingly wealthy. At the same time, market opening has accelerated and the country has increasingly adopted international standards, making Indonesia an important global production base and emerging consumer market. Taiwan enterprises are honored to have played a part in Indonesia's eye-catching performance and want to help the country "take it to the next level," while establishing long-term operations and achieving sustainable development. This "White Paper for Taiwan Enterprises' Business and Investment in Indonesia" is published by the World Taiwanese Chambers of Commerce, Asia Taiwanese Chambers of Commerce and Indonesia Taiwanese Chambers of Commerce (ITCC) as a reference for both Taiwan and Indonesia, in order to ensure Taiwanese investors, the Indonesian government and people can further develop their win-win-win relationship. It is hoped that this report, which is based on the experience of Taiwanese enterprises investing in Indonesia, will serve as an invaluable reference for the introduction of reforms, system restructuring and the relaxation of legal provisions by the Indonesian government. In

this way, it can play a small part in helping to optimize the business and investment environment, step up the adoption of international standards, while promoting industry upgrading and transformation. In addition, the white paper also makes proposals for the deepening of future cooperation based on industry development needs and the relative strengths of Taiwan and Indonesia. Focus areas include agricultural and aquaculture technology, education and training, green energy technology, intelligent transportation, smart cities etc. The goal is for Taiwan and Indonesia to establish a mutually beneficial and comprehensive partnership that leads to new milestones in business and investment, social and cultural relations.

Based on the special investment features of Taiwan enterprises, Taiwan manufacturing firms face a number of common operational challenges including existing laws, labor, taxation, trade, investment human resources, infrastructure etc. However, firms focused on domestic sales face even more barriers in terms of laws and investment permission. On the whole, problems communicated by Taiwan enterprises tend to be related to production and exports, with the main objective in requesting the assistance of the Indonesian government being to eliminate related obstacles so as to improve productivity and expand exports, thereby creating a more stable employment environment for Indonesian workers. As such, Taiwan enterprises hope the Indonesian government will first take steps to improve legal norms and execution procedures, explaining official English language versions of laws and enforcement rules, while providing an adaptation period before new laws are rolled out. Such an approach will improve the transparency of the execution process, simplify investment applications and review processes, reducing compliance costs and risks when it comes to labor, tax, customs tariffs and investment related operations.

Taiwan enterprises employ a large number of Indonesian laborers with whom they form a community. As such, they attach considerable importance to labor and human resources issues and it is hoped related proposals will facilitate a win-win-win scenario for enterprises, workers and the government. Taiwanese enterprises support steady salary increases, the abolition of minimum wages in different industry categories, reasonable dismissal costs and efficient management of unions etc. These measures seek to promote harmonious labor relations and a stable labor market, which helps enterprises achieve sustainable operations and creates more employment opportunities. At the same time, companies from Taiwan also encourage the Indonesian government to eliminate unnecessary restrictions on work permit applications for foreign nationals

and provide enterprises with more operational flexibility. Moreover, faced with the rapid upgrading of Indonesian industry and the urgent need for technical and professional talent, Taiwan enterprises would like the government to deepen cooperation in human resources development based on the existing Taiwan-Indonesia human resources exchange foundation. For example, the two-way movement of students and industry manpower and industry-academia exchange. In this context, Indonesian laborers, spouses and children in Taiwan can be used to promote the two-way flow of quality manpower and boost the development of Indonesian human capital, thereby reducing the shortage of technical and professional personnel in agriculture, industry and service sectors.

Tax policy has a huge impact on the performance of enterprises and is an important consideration when multinational companies consider whether to invest overseas. In order to help the Indonesian government develop a comprehensive tax system, create a business-friendly environment and attract more foreign investment, Taiwan enterprises have made a raft of proposals on tax issues. On the whole, Taiwanese firms have been very positive and highly supportive of efforts by Indonesian President Joko Widodo in terms of tax reform. However, they would also like the Indonesian government to improve the transparency of tax collection, strengthen tax education and promotional work, while improving tax regulations as they relate to small scale business operations and reducing unnecessary investigations of Taiwan and foreign enterprises, thereby enhancing the Indonesian tax system.

Production links between Taiwan and Indonesia are increasingly close, so much so that the country has gradually become an important link in Taiwan's global and East Asia industry chain. Taiwan-Indonesia-Europe/US and other countries have close trilateral trade relations and it is in that context that convenient and efficient trade and investment mechanisms and open channels to the outside world greatly enhance the international competitiveness of Taiwan enterprises producing and exporting in Indonesia. These enterprises benefit from Indonesia's network of FTAs and regional economic integration, which allow them to import from and export to Indonesia's major trade partners, even though barriers to trade with Taiwan remain high. However, because Taiwan and Indonesia have still not signed an Economic Cooperation Agreement (ECA), not only are semi-finished goods and components imported from Taiwan by Taiwanese enterprises in Indonesia relatively expensive, it is impossible to expand exports of products produced by those enterprises in Indonesia or extremely

competitive Indonesian agricultural, and fishing products to Taiwan, a situation that is disadvantageous to the development of bilateral trade. Other than manufacturing industry investment, over the past few years an increasing number of new service industries, systems integration services etc. have shown an interest in investing in Indonesia, but the lack of a bilateral ECA means many service industries are not open to Taiwan and that is an obstacle to deepening bilateral industry cooperation.

Looking to the future, Taiwan enterprises hope Taiwan and Indonesia will continue existing cooperation in various areas and systematically broaden and deepen such relationships. For example, the goal in terms of agriculture and aquaculture technology is to expand from existing single point varieties, techniques, eco-systems, environments and system cooperation into the strengthening and linking of production, processing and export marketing. This involves developing six grade industry, improving the added value of Indonesian agriculture and aquaculture products, while increasing the economic returns to farmers and fishermen. Taiwan enterprises are happy to coordinate with the needs that arise as part of social and economic development in Indonesia, by sharing Taiwan's experience and providing substantive assistance. For example, installing improved legal, tax, customs, investment review and statistical survey related information systems will improve administrative efficiency. At the same time, this will also better facilitate cooperation in new industries, such as intelligent transportation, smart cities and green energy technology, establishing joint demonstration sites and industry standards. This will promote the comprehensive development of Indonesian industry, but Taiwan-Indonesia cooperation will also facilitate the sharing of business opportunities in emerging industries. Moreover, as the Indonesian economy develops there will be greater demand for higher education talent and technical experts. In other words, using Taiwan-Indonesia industry-academic cooperation as a vehicle to apply the capabilities and experience of Taiwan enterprises to the development of Indonesian industry will help cultivate Indonesian technical talent and enhance the competitiveness of the country's manufacturing industry.

Taiwanese enterprises have invested in Indonesia for more than 40 years and in that time experienced many ups and downs, but through it all the friendship between the two countries has never been impacted by changes in the external economic environment. During the Asian financial crisis of 1997, Taiwan enterprises not only did not retreat from Indonesia, they stepped up work to be part of local culture and chose to put down local roots. We believe that on the basis of this friendship, bilateral trade

and social exchange will deepen and continue into the future. Taiwan enterprises view Indonesia as a second home, want to give back to society, do everything possible to be socially responsible and are widely involved in charity and philanthropic work. They aspire to work with the Indonesian government to create a better and happier society. At the same time, Taiwanese companies would also like the Indonesian government to view them as part of the country and help remove barriers to their investment and operations. This includes reducing restrictions on investment; accelerating the review process for investments by foreign firms and improving its transparency, broadening the application of tax credit, promoting a mutual certification system, launching substantive follow up negotiations on the basis of existing joint Taiwan-Indonesia ECA research and eliminating barriers to bilateral trade and investment, while also upgrading the Taiwan-Indonesia Investment Promotion and Protection Agreement. Such measures would introduce comprehensive protections that ensure Taiwan enterprises receive fair treatment, as well as guarantees on physical safety and property security, which will encourage greater investment in Indonesia and allow them to cultivate long-term operations and sustainable development.

Part 1. Summary

A. Origin

In the 1980s, Taiwan enterprises started to directly invest overseas and as their investments increased they set up Taiwanese chambers of commerce in numerous countries. In September 1994, as a way of linking chambers of commerce in different location, the World Taiwanese Chambers of Commerce was established, with six continental branches in Asia, Europe, North America, Central and South America, Oceania and Africa, with 189 district chambers of commerce in 73 countries and regions and more than 40,000 members. It has since become an important global private sector group. The mission statement of World Taiwanese Chambers of Commerce is to enhance the international position of Taiwan enterprises, encourage host countries in which those enterprises invest to guarantee their rights and it also serves as a bridge between the invested country and Taiwan, enabling the two sides to establish comprehensive partnerships.

As investment deepens, many Taiwan enterprises put down local roots in the invested country and cultivate a second generation of local managers, an indication it is viewed as home. Having been well educated, this new generation has a deeper understanding of Taiwan and the culture of the invested country and are multilingual, making its members invaluable human assets for Taiwan and the invested country.

Taiwan enterprises have been particularly proactive in investing in neighboring Asian countries. In the mid 1980s, the domestic economy in Taiwan underwent great change and wages rapidly increased. At the same time, Indonesia started to simplify its foreign investment procedures and relaxed visas rules for Taiwanese, attracting many Taiwan firms to invest in the country. Thereafter, Indonesia gradually became an important overseas production base for Taiwan enterprises. In recent years, as the potential of the domestic market has expanded and trade conflict between the US and China has taken hold, there has been a new wave of investment by Taiwanese companies in Indonesia. Initial estimates indicate there are about 2,000 Taiwan enterprises in Indonesia, employing about 20,000 people and creating employment opportunities for more than 1 million Indonesians. These firms have made an important contribution to industrial development, export-generated foreign exchange and stimulated economic growth.

Indonesia has a vast territory and abundant resources that provide excellent innate development conditions. Domestically, since his election President Joko Widodo has

been an ardent reformer, issuing 16 economic policy packages while actively simplifying and relaxing regulations, to improve the investment environment. Externally, Indonesia has accelerated its international business links in the hope of making the country more attractive to foreign investment. Taiwan enterprises have welcomed and praised the efforts of the new government since it took office and remain confident about the potential for expanding business relations with Indonesia. It is based on the fact that Taiwan enterprises have been active in Indonesia for so long, the closeness of Taiwan-Indonesia business relations and frequency of people-to-people interactions that the World Taiwanese Chambers of Commerce, Asia Taiwanese Chambers of Commerce and Indonesia Taiwanese Chambers of Commerce (hereafter Taiwanese Chambers of Commerce) are publishing this “White Paper on Taiwan Enterprises’ Business and Investment in Indonesia.” The hope is to use the experience of Taiwan enterprises investing in Indonesia to provide the Indonesian government with a reference for future reform and opening, system reorganization and relaxing existing legal provisions. This can then be used to facilitate the optimization of the business environment and accelerate the adoption of international standards in ways that will benefit Taiwanese investors, the Indonesian government and the people of Indonesia. At the same time, the complementary strengths of Taiwan and Indonesia suggest fields for future cooperation, where the two countries can support each other in the development of newly emerging industries to their mutual benefit.

B. Taiwan-Indonesia business and cultural exchange

The 1970s were marked by great political and economic turmoil both domestically and internationally. In Taiwan, there was a wave of immigration with some Taiwanese choosing to settle in Indonesia where they engaged in business. This first generation of Taiwan enterprises was there when the Indonesian economy took off and many put down roots in the country. Statistics indicate that currently more than 200,000 Taiwanese live in Indonesia, second only to the number living in the United States.¹ In order to facilitate bilateral business ties, on June 1, 1971 Indonesia established an Indonesian Chamber of Commerce in Taipei (renamed the Indonesian Economic and Trade Office to Taipei in January 1995). In 1972, Taiwan established the Republic of China Chamber of Commerce in Jakarta (renamed the Taipei Economic and Trade Office, Jakarta, Indonesia in 1990). In December 2015, the Taipei Economic and Trade

¹ 2016 Statistical Yearbook of the Overseas Community Affairs Council, page 11

Office in Surabaya was opened in Indonesia's second largest city, to provide Taiwan enterprises and Indonesian laborers with more convenient consular services.

In 1976, Taiwan and Indonesia signed an Agricultural Technology Cooperation Agreement, and from that year Taiwan dispatched agricultural missions to East Java and Central Java to help develop agriculture. Thereafter, the two sides signed more than 20 important agreements and memorandums, including an agreement on the promotion and protection of investment, agreement on the avoidance of double taxation, memorandum of understanding on marine and fisheries cooperation, recruitment and labor brokerage memorandum of understanding, cooperative agreement on higher education etc. These established a solid foundation for the deepening of bilateral business relations. In terms of people-to-people exchanges, in September 1971, enterprise, cultural and educational circles, together with elected representative and overseas compatriots established the "ROC-Indonesia Economic and Cultural Association" in Taipei. This actively works to promote cultural exchange and economic cooperation between Taiwan and Indonesia and has been doing so for 47 years.

From the 1980s, overseas investment by Taiwan enterprises increased dramatically and after 1986 the Indonesian government removed a series of controls and adopted market liberalization measures. Those policies combined with the country's abundant natural resources, the good nature of the Indonesian people and long term friendly bilateral relations, attracted even more Taiwan enterprises which invested in the building of new plants. Statistics from the Investment Coordinating Board of the Republic of Indonesia (BKPM) show that from 1990 to the third quarter of 2018, Taiwan enterprises invested US\$3.76 billion, making Taiwan the 15th largest source of foreign investment in the country. However, according to Taiwan's Department of Investment Services, Ministry of Economic Affairs, compiled "Taiwanese Investment in ASEAN Countries" table,² up to the first quarter of 2018, Taiwan enterprises invested in 2,915 projects worth more than US\$17.7 billion in Indonesia, the second highest level of investment by Taiwan in a Southeast Asian country after Vietnam. The large disparity between these two figures can be explained by the fact that many Taiwan enterprises invest in Indonesia through third countries or territories such as Mainland China, Singapore, Samoa, British Virgin Islands etc., as a result of which the true

² "Table of Taiwan Investment in ASEAN Member Countries" Department of Investment Services, Ministry of Economic Affairs, <https://www.dois.moea.gov.tw/Home/relation3> (last browsed Oct. 31, 2018)

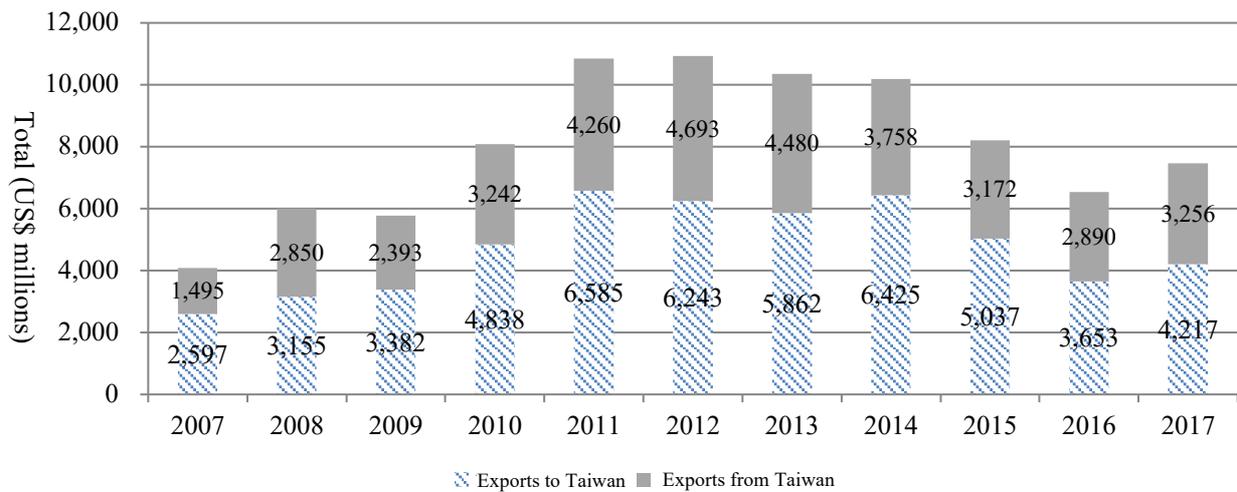
investment figures are considerably higher than those indicated by the official Indonesian statistics.³

Production conditions in Taiwan and Indonesia are highly complementary. Indonesia is rich in natural resources, with ample crude oil, natural gas, coal, metal mineral deposits, timber etc. and Taiwan is more advanced in terms of industrial development and manufacturing technology. This difference is also reflected in bilateral trade, with Taiwan every year importing large volumes of minerals, timber and paper products, while exporting such intermediate and capital goods to Indonesia as machinery, electronics, plastics, cloth etc. In 2017, Indonesian exports to Taiwan were valued at US\$4.2 billion, 60 percent of which was oil and mineral products. Over the same period, a total of US\$3.3 billion in products were imported from Taiwan, with machinery and electronic related products accounting for about 30 percent. In other words, Indonesia has a trade surplus of US\$1 billion with Taiwan. However, over the past few years there has been a drop in bilateral trade, related not only to the falling price of international crude oil and commodities, but also the lack of a Free Trade Agreement (FTA) between Taiwan and Indonesia. With no FTA in place, Indonesian exports to Taiwan are focused on low tariff minerals, steel, timber and paper products. In fact, Indonesia has highly export competitive fish and prawns, peppers, garments and footwear, very little of which is exported because of Taiwan's tariff barriers. In the same way, high Indonesian tariffs on machinery/equipment, electronics, textiles, plastics and other raw materials from Taiwan has resulted in such items being gradually replaced by products from countries with which Indonesia already has FTAs, such as Mainland China and South Korea (see Chart 1).

³ "Analysis of Investment Environment in Indonesia and Investment by Taiwan Enterprises," produced by the Taipei Economic Trade Office, Jakarta, Indonesia and the Export-Import Bank of the Republic of China Indonesia Office, March 1993.

Tsai Ching-lung, Tsai Pan-lung (2012) Economic Development in Indonesia and Thailand Foreign Direct Investment and International Labor Movements: Verification of the IMPD Analysis Framework," Taiwan Journal of Southeast Asian Studies vol. 9, issue 1, 2012, pp 79-112.

Chart 1 Indonesia's total imports from and exports to Taiwan 2007-2017



Source: Taken from the World Trade Atlas (WTA) database.

In addition to the close business relations between Taiwan and Indonesia, there are also a great many social and cultural exchanges, primarily because Taiwan has a large number of overseas compatriots, businesspeople and officials in Indonesia and Indonesia has a great many laborers, spouses and students studying in Taiwan. At present, approximately 260,000 Indonesian laborers are employed in Taiwan, with up to three quarters involved in home care work, making it the number one source of foreign workers engaged in social welfare in Taiwan, who make an important contribution to social stability. The other quarter of Indonesian laborers work in the manufacturing sector, mainly concentrated in the fabricated metals, mechanical equipment, textiles, plastic products and other industries, making them one of the main sources of foreign labor in Taiwanese industry. Indonesian laborers who come to Taiwan to work not only create a huge amount of foreign exchange for Indonesia, they can also learn about home care, production techniques and plant management, skills that can be taken home and used to establish their own companies or work for local enterprises.

Indonesia is also the third largest source of foreign spouses in Taiwan after China and Vietnam. As of August 2018, there were nearly 30,000 Indonesian spouses in Taiwan, accounting for about 6 percent of the total number. In addition, the number of offspring of marriages between Taiwanese and Indonesians continues to set new records, with nearly 20,000 such students attending elementary and junior high schools, representing approximately 10 percent of all new immigrant children nationwide. As

the number of Indonesian spouses has increased, they have become a new emerging group in Taiwan and so in order to mitigate the sense of strangeness and isolation felt by many on arriving in the country and to help them develop their own circle of friends in the areas where they live, counties and cities across Taiwan have established “New Immigrant Meeting Halls.” These provide a selection of classes and activities, help foreign spouses learn Chinese, learn about Taiwanese culture, understand local dietary habits and even train as translators. The goal of such efforts is to ensure that Indonesian nationals living in Taiwan can find a sense of familiarity from activities relating to their home country, where they can meet and share with others from similar backgrounds, making it easier for them to enjoy their new lives in Taiwan.

Other than Indonesian laborers and spouses who settle here after getting married, Taiwan is also one of the most popular destinations with children of Indonesian overseas compatriots seeking to enroll on programs of overseas study. As such, there are many Indonesian students studying in Taiwan.⁴ From 2014-2017, the number increased from 3,455 to 6,453, with 4,063 officially enrolled on degree programs, and almost 2,000 choosing to study Chinese. Many of these Indonesian students choose to live and work in Taiwan after graduating and go on to get married and have children here. Others return to Indonesia and have established alumni organizations such as ICATI (Ikatan Citra Alumni Taiwan se-Indonesia)⁵. This group has operated for nearly 40 years, has 5,000 members and is an important channel enabling students who have studied in Taiwan to stay in contact. It also serves as a bridge for the promotion of bilateral education and cultural exchange.

In order to help overseas compatriot businesses develop and cultivate overseas compatriot business talent, Taiwan’s Overseas Community Affairs Council (OCAC) organizes many business related classes in Taiwan. These include business management, E-commerce, franchise chains, restaurant management, baking practice, online marketing, business operations etc. and are organized for overseas compatriots returning to Taiwan to study. In 2015, the Indonesian Chinese Traders Federation (ICTF) was established to bring together Indonesian students who have enrolled on OCAC organized business study programs over the years and thereby enhance exchange and interaction. The Federation seeks to forge closer ties that bring together the respective

⁴ Lai Heng-chia (2017), “Things You May Not Know About Indonesia,” Cite E-Printing Co., Ltd.

⁵ Official website : <http://www.icati.org/default.asp> °

strengths of Taiwan and Indonesia, increasing the opportunities for cooperation and making it easier for Indonesian students who studied in Taiwan to embrace entrepreneurship and establish their own enterprises on returning home.

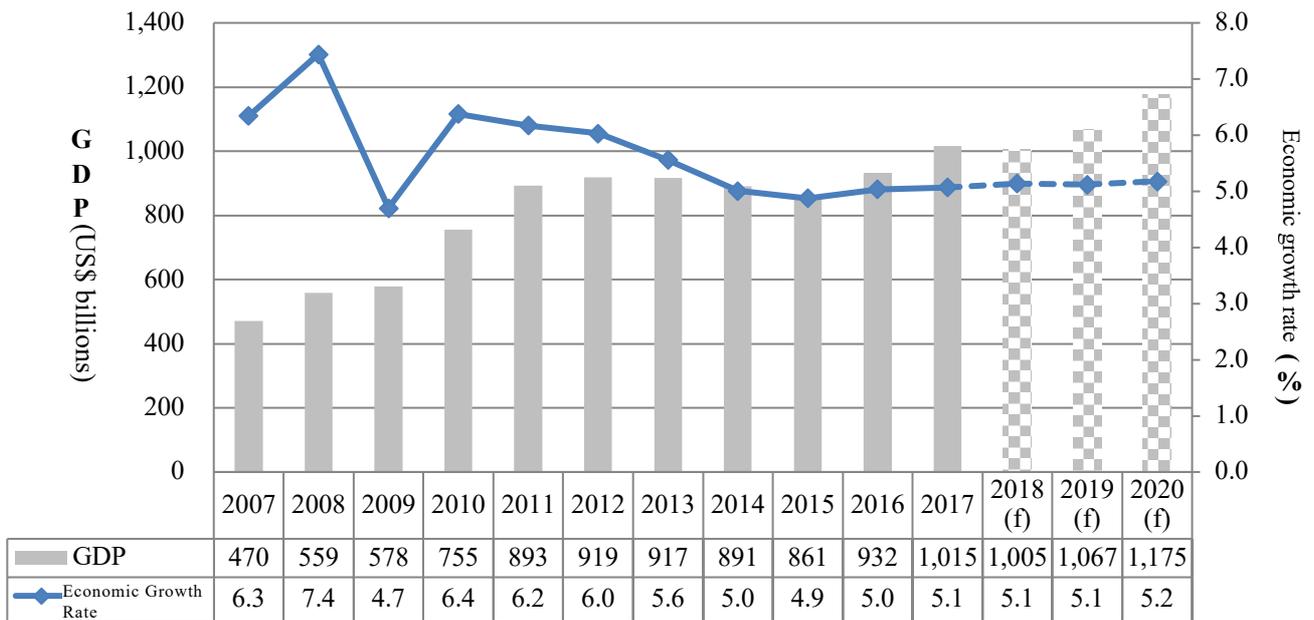
As business and cultural exchanges between Taiwan and Indonesia continue to deepen and the frequency of business and tourism exchanges increases, Taiwanese society has learned more about Indonesian culture and Indonesian food has become increasingly commonplace, featuring on blogs and websites introducing major cuisines. In addition, the number of university students in Taiwan who choose to study Indonesian, travel to Indonesia or seek work there continues to increase. We are confident that as bilateral business and cultural exchanges grow, future contacts and relations will be much closer.

C. Indonesia's overall environment for doing business

1. Continual steady economic growth

Indonesia has considerable agricultural and industry raw materials, including crude oil, natural gas, coal mines, rubber, timber, as well as export processing industries such as garments and footwear, which make a great amount of foreign exchange for the country. However, these sectors are highly susceptible to changes in international prices and that in turn impacts economic growth. In 2015, the collapse in the price of commodities, slowing economic growth in Mainland China and rising US interest rates caused the Indonesian economy to weaken, the stock market and foreign exchange markets to become increasingly turbulent and growth to dip under 5 percent, for the first time since 2009 (chart 2). In order to overcome these economic difficulties, in September 2015 the Indonesian government introduced a series of economic stimulus packages designed to improve the investment environment and boost economic performance. In 2016, economic growth rose above 5 percent and in 2017, in the wake of global economic recovery, export growth, strong investment and increased consumer spending, GDP growth not only remained above 5 percent, but passed US\$1 trillion for the first time.

Chart 2 GDP and Economic Growth in Indonesia 2007-2020



Note: (f) is forecast value

Source: IMF World Economic Outlook Database, October 2018

Following the introduction of a series of business related reforms, infrastructure projects by the Indonesian government, the legal system and investment environment have gradually improved, boosting the prospects for future economic growth. Add to that increasing purchasing power and a population of 260 million and Indonesia is an emerging market of global importance. A survey by the United Nations Conference on Trade and Development (UNCTAD) indicates that in 2017-2019 Indonesia is the fourth ranked county for multinational corporations looking to invest overseas, trailing only the US, China and India⁶. In addition, the main international institutions remained cautiously optimistic over Indonesia's economic performance in 2018. For example, in October 2018 the International Monetary Fund (IMF) forecast annual growth of 5.1 percent in 2018 and other key economic forecasting institutions such as the Asian Development Bank, Global Insight and the World Bank forecast economic growth of 5.1%~5.2%.

The benefits of economic reform in Indonesia have gradually become apparent and confidence in the future development of the country is shared by the Indonesian

⁶ Source: Global Investment Prospects Assessment 2017–2019, United Nations Conference on Trade and Development(UNCTAD)

people and local enterprises, overseas multinationals and international institutions. In an environment of global competition, Indonesia is currently at a key point in the transformation of its economy, so that future economic growth is not only driven by consumption, but increasingly by investment and exports. In addition to depending on energy resource industries, the country also needs to enhance the development of the manufacturing and service sectors as the only way to ensure sustainable economic growth. Indonesia should make good use of the capital, technology and operational knowledge brought by multinational corporations, to improve enterprise productivity and value added. That will enhance the quality of human resources and lift income levels, creating an optimal development environment for small and medium enterprises and new start-ups.

2. Foreign companies continuing to increase investment

As the largest economy in the Association of Southeast Asian Nations (ASEAN) with a population of 260 million and an ever growing middle class, it is estimated that by 2020 middle class consumption in Indonesia will rank in the global top 10, making it the emerging consumer market with the greatest potential in the world. Add to that the country's rich natural resources, large youthful workforce, the efforts of the Indonesian government to introduce business and tax system reforms, and comprehensive infrastructure, and the country is a highly attractive destination for foreign investment. Against this backdrop, several international institutions such as UNCTAD's "World Investment Report 2017"⁷, The Economist's "Asia Business Outlook Survey 2018," the Japan Bank for International Cooperation's (JBIC) "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies" have pointed out⁸, that the appeal of Indonesia as a destination for investment includes: (1) Large domestic market demand with boundless growth potential; (2) Ample and low cost labor; (3) Rich in natural resources; (4) Gradual development of supply chains; (5) Relative political and economic stability and (6) Active government measures to introduce reforms and improve the investment environment.

Statistics indicate that from 2007-2011, Indonesia attracted more than US\$10 billion in overseas investment annually, which from 2012-2016 increased to US\$20

⁷ UNCTAD, 「World Investment Report 2017」, http://unctad.org/en/PublicationsLibrary/wir2017_en.pdf

⁸ The Economist, 「Asia Business Outlook Survey 2018」, <https://www.corporatenetwork.com/media/2062/asia-business-outlook-survey-2018.pdf>

billion a year and in 2017 passed US\$30 billion. Many internationally renowned multinational corporations have already built plants in Indonesia, including Posco, Lotte, LG and Samsung from South Korea; carmakers Toyota, Daihatsu, Honda, Suzuki and Mitsubishi, motorbike makers Yamaha and Honda, and electrical and electronics firms Panasonic, Sharp and Toshiba from Japan. Taiwan firms to have invested in Indonesia include; Cheng Shin Rubber Industry Co., Kenda Rubber Industrial Company, Pou Chen Corporation, ACER, ASUS, Din Tai Fung, Chatime etc.

A combination of generous innate conditions and acquired effort has enabled Indonesia to become a vibrant country and Taiwan enterprises are proud to be part of it. At the same time, although the ITCC has expressed its heartfelt thanks and support for the efforts of the Indonesian government, it also hopes for measures to open up and reform the country further, together with steps to strengthen international ties, such as the development of a network of FTAs. Such a network would help create an even better investment environment, promote economic and industry development, creating a win-win-win scenario for Taiwan enterprises, the Indonesian government and people.

3. Business Environment Continues to Improve

In recent years, the Indonesian government has proactively sought to improve the investment environment. In 2007, Investment Law No.25/2007 was promulgated, replacing the Foreign Investment Law (1967) and Domestic Investment Law (1968). This represented a major improvement in terms of the foreign investment review process and administrative efficiency. In September 2015, the government started to introduce a series of economic stimulus packages to boost Indonesia's economic performance and improve the investment environment. These included relaxing investment regulations, investment relief, reducing financing costs and income tax for small and medium enterprises and simplifying and relaxing processes for setting up new enterprises to increase the ease of doing business. In addition, the Indonesian government has raised the salaries of customs and tax officials, while also occasionally transferring personnel to different departments as a way of boosting administrative efficiency, while simultaneously increasing the transparency of their work. As a result of the government's hard work, Indonesia is gradually improving its position in global competitiveness and investment environment rankings.

The World Bank's "2018 Doing Business" published in 2017 ranked the business environment in Indonesia as 72nd in the world, an improvement of 19 places on 2016. The US Heritage Foundation's "2018 Index of Economic Freedom" gave Indonesia a

ranking of 69, a leap of 15 places in one year. Moreover, “The 2017-2018 Global Competitiveness Index” issued by the World Economic Forum (WEF) ranked Indonesia in 36th place, an improvement of five places on its performance in 2016-2017. Against this backdrop of improving competitiveness and investment environment, Taiwan enterprises have been very supportive of the Indonesian government. They believe that as long as government departments continue in this direction, continued stable growth can be extended throughout the overall economy and industry development.

Although Indonesia’s overall competitiveness has continued to improve, there are still several areas in which progress has been slow and these remain obstacles to business reforms realizing their full potential. If the Indonesian government could focus more on and display greater boldness in these areas’ improvements in the overall investment environment would be even greater, attracting more overseas investment.

In the WEF “2017-2018 Global Competitiveness Index” Indonesia’s overall ranking was 36th but in certain areas that make up the index it performed much worse, whereas in some it even declined and those require further attention. In Table 1, the ITCC compares changes in rankings in various categories over the past two years, and the extent to which these act as barriers to the operations of Taiwan enterprises in Indonesia. This highlights those areas identified as barriers to business by Taiwanese firms which are also the same areas in which Indonesia places low in international rankings. For the most part these focus on barriers relating to labor, talent, administrative efficiency, investment, trade etc.

Although Indonesia’s performance in most of the items in the aforementioned index improved from the previous year, it is worth noting that the country’s ranking fell in higher education enrollment rate (91st), reliability of public services (77th), tariff barriers (67th) and corporate foreign shareholding (61st), by 9, 6, 5 and 1 place respectively. This is a clear indication that the degree of improvement is limited and Indonesia has been passed by other countries in those areas. Moreover, the poor higher education enrollment rate leads directly to a shortage of local high tech and senior managing talent, which not only makes it difficult for foreign firms to employ qualified staff, it also means employment costs are relatively high, a problem identified by many Taiwan enterprises. Indonesia also performed poorly in terms of dismissal costs (133rd), new start up procedures (121st), female labor participation rate (113th), basic education enrollment rate (106th), days needed to establish a new company (105th), wage flexibility (99th), commercial impact of rules governing foreign direct investment (87th)

and universality of trade barriers (79th). This leaves considerable room for improvement.

**Table 1 Indonesian Global Competitiveness Index Items and Rankings
Requiring Improvement**

Index items	2017-2018 No.	2016-2017 No.	2017-2018 Change in ranking
Overall ranking	36	41	+5
Dismissal costs	133	133	0
new start up procedures	121	133	+12
Female labor participation rate	113	115	+2
Basic education enrollment rate	106	106	0
Days needed to establish a new company	105	126	+21
Wage flexibility	99	109	+10
PCT patent application No. /million people	97	99	+2
Higher education enrollment rate	91	82	-9
Commercial impact of rules governing foreign direct investment	87	91	+4
Power supply quality	86	89	+3
Middle school education enrollment rate	85	92	+7
Universality of trade barriers	79	91	+12
Reliability of public services	77	71	-6
Port construction quality	72	75	+3
Overall infrastructure quality	68	80	+12
Government finances	68	53	-15
Health of banking system	68	72	+4
Efficacy of accounting and auditing standards	67	80	+13
Availability of latest technology	67	73	+6
Tariff barriers	67	62	-5
Strength of investor protections	66	79	+13
Highway quality	64	75	+11
Annual variation in inflation	64	111	+47
Customs procedures burden	63	73	+10
Universality of corporate foreign shareholding	61	60	-1

Note 1: In 2016-2017 a total of 138 counties were ranked, in 2017-2018 it was 137.

Note 2: Those items in grey are trade barriers commonly identified by Taiwan enterprises.

Source : *WEF Global Competitiveness Report 2017-2018 and Global Competitiveness Report 2016-2017.*

A large number of Taiwan enterprises started to invest and put down roots in Indonesian as its economy became more open to the outside world, and many have

witnessed first hand economic growth and progress in the country, as well as the efforts of the Indonesian government in terms of business reforms. However, they have felt it perhaps even more in those areas where progress has been slower. In the hope that Indonesia will accelerate its transformation and take it to the next level, the ITCC agreed to detail the experience of its members operating in the country over many years in this White Paper, which it hopes will serve as a yardstick for the introduction of further improvements. If the Indonesian government listens to the proposals made by foreign enterprises and continues to carry out reforms in the areas identified that will not only improve the country's overall international ranking, it will also encourage more foreign enterprises to invest, which will facilitate a reduction in domestic production costs and improve productivity. The ITCC very much hopes the Indonesian government will continue to deepen the push for reform and accelerate the speed of those reforms, firm in the conviction that such a course of action will help to boost overall national competitiveness.

Part 2 Issues of concern and proposals for Taiwan enterprises

A. Investment in Indonesia by Taiwan enterprises – Overview and Features

1. History and Overview of Investment in Indonesia

During the turbulent political and economic times of the 1970s, both domestically and overseas, Taiwan experienced a wave of emigration with a number of Taiwanese settling down and establishing businesses in Indonesia. Based on figures from Taiwan's Investment Commission under the Ministry of Economic Affairs (MOEA) on approved overseas investment, the first investment by a Taiwan enterprise in Indonesia was in 1971 and increased rapidly after 1990. According to the "Taiwanese Investment in ASEAN Countries Table" compiled by the Department of Investment Services, MOEA, up to the first quarter of 2018, Taiwan enterprises had a total of 2,915 investment projects in Indonesia, worth more than US\$17.7 billion. The first generation of Taiwan enterprises in the country grew as the Indonesian economy took off, with many putting down roots. Moreover, after almost half a century of hard work and successfully navigating the Asian financial crisis (1997) and global financial tsunami (2008), Taiwan enterprises are today major players in the textile, footwear, wooden furniture, agriculture and fishing, hardware and non-metallic mineral industries. Indeed, these companies have made outstanding contributions to the development of Indonesian industry, earning foreign exchange through imports, providing employment, human resources development and technology upgrading.

Figures from Indonesia's BKPM on foreign investment indicate that Taiwan enterprises invested in 2,841 projects worth US\$3.76 billion, from 1990 to the third quarter of 2018, making Taiwan the 15th largest source of investment in the country. However, for reasons relating to global deployment strategies or tax planning, many Taiwan enterprises have not invested in Indonesia in the name of their Taiwan parent company, but rather through affiliated companies in third countries or territories such as Mainland China, Hong Kong, Singapore, British Virgin Islands, Samoa etc. As a result, if we adopt a broader definition of "Taiwan Enterprise," the amount of investment by such firms in Indonesia is considerably higher than the official figure indicates.

Initial figures from the ITCC show there are currently about 2,000 Taiwan enterprises in Indonesia employing roughly 20,000 people, predominantly in the textile, footwear, furniture, metal product, tire, non-metallic mineral, trading, restaurant and

agriculture/fishing industries. Geographically, investment is concentrated in Jakarta, Bandung, Surabaya, Semarang, Medan and Bali Island.⁹ The operations of Taiwan enterprises in Indonesia have not only helped to increase exports and earn sizeable foreign exchange reserves, they have also provided more than 1 million employment opportunities, while nurturing the technical and management talent needed by local industry. At the same time, these enterprises have also developed industry supply chains, enhancing local production and supply capabilities, thereby gradually improving the investment environment in the country.

2. Important industry investments by Taiwan enterprises and their concrete contribution to Indonesia

(1) Earning foreign exchange through exports, providing large number of employment opportunities

The textile/garment and footwear industries are two of the oldest light industries to develop in Indonesia and one of the focuses of early investments in the country by Taiwan enterprises. These industries employ a lot of people and are an important source of foreign exchange. In 2017, they accounted for about 10 percent of all Indonesian exports in terms of value, creating a trade surplus of US\$11.6 billion, more than Indonesia's total trade surplus of US\$10.7 billion. The importance of these two industries can be seen in the fact that, unlike most other foreign exchange creating industries in the energy resources sector, such as oil and minerals, rubber, palm oil, timber and wood products, aquatic products, the textile/garment and footwear industries are labor intensive. In other words, they have a huge positive impact in terms of protecting natural resources, providing employment opportunities, training local employees and technology upgrading.

The Indonesian textile/garment industry currently has 4,500 enterprises, a workforce of more than 1.4 million and is one of the top 10 exporting countries in the world.¹⁰ About 100 Taiwan enterprises have invested in this sector, with more than half concentrated in West Java. Initially, Taiwan firms focused on textile downstream garment processing and the production of low end fabric, but in recent years they have gradually extended into mid-stream and up-stream operations. Some Taiwan enterprises

⁹ "Taiwan-Indonesia Economic and Trade Relations," <https://www.taitraesource.com/total01.asp>, last browsed July 27, 2018

¹⁰ <http://www.tnet.org.tw/Article/Detail/13392?type=%E5%B8%82%E5%A0%B4%E8%A8%8A%E6%81%AF&species=Slave&backPath=.%2F.%2FArticle%2FArticleVerticalSlave%2F6> °

have even established streamlined coordinated production, a major contribution to improving the textile/garment industry chain in Indonesia. This not only reduces the production and delivery time for Taiwan enterprises, it also allows them to serve as suppliers to other foreign invested firms, which has been a major boost to the international competitiveness of the Indonesian textile/garment industry. Renowned enterprises in this sector include Makalot Industrial Co., Ltd., Tainan Enterprises Co. Ltd., Tuntex Incorporation, Lealea Enterprise Co. Ltd., Cheung Hing International Textile Limited, How Are You Textile Industry Ltd., PT. Karya Prima Sentosa ∙ PT. Ever Shine Tex Tbk etc.

The main Taiwan enterprises currently investing in the Indonesian footwear industry include Pou Chen Corporation, Chingluh Shoes Co, Ltd., Feng Tay Enterprises Co., Ltd. etc. Pou Chen established its first production base in Indonesia in 1992 and currently employs about 100,000 people in the country. Confident about the prospects for development in Indonesia, in recent years the group has expanded capacity and built new plants. By the second quarter of 2018, production capacity at its Indonesian plants accounted for about 37 percent of the group's total output. Feng Tay Enterprises Co., Ltd. also entered the Indonesian market in 1992 and its local plants currently make up 12 percent of the group's production capacity. The company focuses on children's footwear and has continued to build new plants and expand its shoemaking capacity in the country. Chingluh Shoes Co, Ltd. arrived in Indonesia in 2007 and built two plants in Tangerang that employ a workforce of 24,000¹¹.

The furniture sector was another focus of early investments in Indonesia by Taiwan enterprises. These firms made use of the country's rich supply of forest resources (teak, rattan etc.) and the ample labor force, combined with Taiwan's outstanding design and handicraft techniques, to process products in Indonesia and export them. This increased their added value and earned foreign exchange. The best known Taiwan invested wooden furniture enterprises are concentrated in Semarang in Central Java and include Jingfujuang Co., Ltd.;¹² and Woodpark Furniture Co., Ltd. Rattan furniture companies are located in Cirebon, West Java, and include PT. Farindojaya Persada, PT. Tafa Rattan Industry Indonesia etc.

¹¹ <http://www.chingluh.com/zh/who-we-are> ∙

¹² <https://www.wealth.com.tw/home/articles/2041> ∙

In general, Taiwan enterprises that build plants in Indonesia, not only create many work opportunities and earn foreign reserves for the country, they also introduce new production and management techniques as well as machinery and equipment. Examples include functional fabric and special footwear material production technology as well as advanced furniture manufacturing equipment. At the same time, these companies use internal training or Taiwan-Indonesia industry-academic cooperation to train technical personnel, a major contribution to improving labor productivity in the local manufacturing sector.

(2) Improving local industry supply chain, reducing reliance on imports

Indonesia is the largest automobile market in ASEAN, the third largest market for motorbikes in the world and its local automobile and motorbike industries are rapidly developing. Japanese car and motorbike manufacturers were the first to launch operations in the country and have developed deep roots, accounting for more than 90 percent of the market. The main automobile brands include Toyota, Daihatsu, Honda, Suzuki, Mitsubishi, Isuzu etc. and the motorbike market is dominated by Honda, Yamaha, Kawasaki, Suzuki etc. However, Taiwan manufacturers of car and motorbike parts, with much experience working with Japanese car plants, have become an important part of the Japanese car plant supply chain in Indonesia, with the main Taiwan firms including San Neng Paint Co., Ltd., PT. Indosafety Sentosa Industry, Luhai Industrial Corp etc. Of these firms, PT. Indosafety Sentosa Industry first invested in Indonesia in 1993 and mainly produces car doors, seats, hood locks and brake disks, which are supplied to nearby Daihatsu, Toyota, Hino, Nissan, Mitsubishi, Honda and Isuzu car plants. Moreover, the firm also supplies Japanese car plants in other ASEAN countries, including Mitsubishi (Thailand), Daihatsu (Malaysia) and Nissan (Philippines and Malaysia).

In recent years, with the potential of the Indonesian car market expanding and at the behest of Japanese car plants, the main Taiwan tire manufacturers, including Cheng Shin Tyre, PT. Kenda Rubber Indonesia, Hwa Fong Rubber Ind. Co., Ltd etc. have invested in Indonesia. Moreover, their products do not only go to the local market and improve the local automobile industry supply chain, they also help boost Indonesian exports. If we take Cheng Shin Tyre as an example, in 2013 the company started to make preparations for a presence in Indonesia and in October 2017 began production and deliveries. The company's products meet the needs of automobile assembly plants in Indonesia and consumers, but it also plans to use the preferential duties in the

integrated economy of the ASEAN region to export to other ASEAN countries, which will expand Indonesian exports and earn foreign exchange for the country. In 2014, PT. Kenda Rubber Indonesia started to build a new plant in Indonesia to produce bike tires and inner tubes for motorbikes and bicycles, with production officially starting in 2017, focused mainly on the domestic market, but supplemented by exports.

The investments of Taiwan automobile and motorbike parts firms in Indonesia have not only provided employment opportunities in the local transportation industry, enhanced the technical capability of the industry and cultivated professional talent, they have also made a huge contribution to the completion of the industry supply chain. Moreover, in addition to meeting the demands of the industry itself, that supply chain also supports the development of the local motorbike, automobile and bicycle industries, by increasing the willingness of foreign enterprises to invest.

(3) Introducing green production technology to maintain sustainable development

Indonesia has a rich array of agricultural and aquatic resources, with excellent geographic and climate conditions that have attracted investment from many agricultural, forestry, fisheries and related processing enterprises in Taiwan. The country's primary industry accounts for 15 percent of GDP and employs more than 30 percent of workers nationwide, which makes the sector extremely important in terms of economic development and social stability. In this context, Taiwan enterprises investing in Indonesia introduce advanced food processing technology and enhance the added value of local resources, but they also help farmers and fishermen improve agricultural and aquatic planting and cultivation techniques, which increases production volume and quality, as well as the income of those who work in the sector.

Some of the largest Taiwan enterprises developing agricultural and aquatic products in Indonesia include PT. Lucky Samudra Pratama, Ye Cherng Industrial Products Indonesian branch company Grobest Indomakmur, Taitung Enterprise Group, Great Wall Enterprise Co., Ltd., PT. Golden Malabar Indonesia etc. Of these, Great Wall Enterprise is involved in shrimp breeding, extensive shrimp cultivation and processing, as a part of which the company emphasizes natural cultivation and the fact it does not use antibiotics. As a result, 90 percent of its output is exported to Japan where it is very popular with Japanese customers and lists among its clients Japan's largest aquatic products company Nichirei Group and the largest Ramen Group Shenghemei. In 2013, resales to Taiwan were insufficient to meet demand. In order to maintain the excellent

environment for shrimp breeding in Indonesia, Great Wall Indonesian affiliate company MMA (PT. Mustika Minanusa Aurora), has worked to restore a mangrove swamp on Tarakan Island to the northeast of Kalimantan Province. It also established a Mangrove Swamp Restoration Project Foundation which plants new saplings in Tarakan every year. In 2010, this project received the Indonesian Environment Protection Award.

PT. Lucky Samudra Pratama is a pioneer in the development of mariculture in Indonesia. Utilizing the natural cultivation environment in the country, advanced cultivation techniques and a rigorous management model, the company received Aqua GAP (Good Aquaculture Practices) certification from Ecocert IMOSwiss AG, which makes it easier for Made in Indonesian fish products to gain access to high-end supermarkets in the US and Japan. The company also actively engages in fry breeding to improve the competitiveness of Indonesian aquaculture. PT. Golden Malabar Indonesia is also involved in the humane breeding of civet cats to produce Indonesia's famous civet cat coffee. In this way, the firm has successfully cultivated civet cats and protected the environment, while its product has been designated a national banquet beverage by the Indonesian government and won more than 30 international awards. The plant was also visited by representatives from 15 countries as part of an Asian Productivity Organization delegation.

Taiwan manufacturing firms have also made much effort in the field of green production and maintaining the environment in Indonesia. For example, PT. Intex Mesin Indonesia takes residual wood, created by furniture and timber processing plants, and uses multiple processes to transform them into wood pellets to be used as fuel for slow burning stoves. When the pellets are burned, the gas produced can also be processed as a flammable gas for other uses. The approach adopted by PT. Intex Mesin starts and ends with nature in that it creates no pollution and makes a positive contribution by helping the Indonesian government address the problem of harmful haze caused by extensive burning in palm oil plantations. It also helps the country realize its undertaking to reduce greenhouse gasses as part of the Paris Agreement.

(4) Enhancing industry-academia cooperation to train local talent

Taiwan enterprises investing in Indonesia invariably hope to put down long-term roots and enjoy success as the country prospers. As such, these companies work hard at cultivating local managers which they consider their responsibility. For example, health food OEM plant TCI Co., Ltd., has a cooperative program with the University of

Indonesia, and has established exchange channels with the Center for Agro-Based Industry (CABI) and the Indonesian Food & Beverage Association (GAPMMI).

In addition, as the Indonesian economy develops and foreign investment continues to increase, manufacturing industry has found that its demand for technology and machine operating talent outstrips supply. As a result, in 2016 Taiwan enterprises established Formosa Teknologi Sentral, equipped it with high quality tool and machine equipment and invited senior teachers from Taiwan. Programs offered employ Taiwan's experience and strength in technological and vocational education to train individuals in the fields of Computerized Numerical Control (CNC) lathe machines, milling machines, programming etc. The first program had a total of 15 students who completed their studies and received a certificate of completion in May 2017. On completion of their studies, the center also assists students find suitable work with a focus on good paying positions. In the future, as the number of trainees in major enterprises increases, technical standards in Indonesia will greatly improve, helping to boost enterprise productivity and industry competitiveness. In 2018, Formosa Teknologi Sentral was commissioned by the Taiwan and Indonesian governments to train 100 lecturers familiar with machine tool operational skills on behalf of the Indonesian Ministry of Industry, in the hope of establishing a solid foundation for the future development of the local precision machinery industry.

(5) Humanistic care and social responsibility

As an integral part of Indonesia, Taiwan enterprises want to give back to the society in which they operate and as such seek to be socially responsible. This includes actively participating in a range of charity activities, including local poverty alleviation, charity and disaster relief work. In this way, Taiwan enterprises and business people give generously and share in the success of such efforts. However, most Taiwan enterprises prefer to be "low key and anonymous" in looking after employees, local communities and giving back to society. Preferred projects include building bridges and roads, building classrooms, donating equipment and items for relief work, sponsoring art, cultural and sporting events, adopting orphans, assisting poor families, providing students from disadvantaged backgrounds with scholarships and assisting children learn the joy of reading. Since it was established by Taiwan enterprises in 2011, the "Three Wheels Foundation" has not only provided emergency relief aid to Taiwan companies, it launches disaster relief activities whenever Indonesia experiences a natural disaster and is active in slum areas on a daily basis,

in an effort to help the disadvantaged improve their lives. For example, the Foundation paid for the building of a student dormitory at an Islamic Boarding School in Tangerang City, to fix the problem of classrooms leaking every time it rained and provide students with a comfortable study environment in which to learn. On August 5, 2018, renowned tourist destination Lombok Island was hit by a powerful earthquake and on September 28, Sulawesi was devastated by a temblor and a tsunami that caused severe damage throughout the area. The ITCC immediately responded to government calls for donations to fund disaster relief work by raising US\$50,000 and US\$200,000, an indication of their desire to help those in the disaster areas.

In the future, Taiwan enterprises will continue to optimize operations, guarantee employees employment opportunities and promote economic and industry development in Indonesia. However, they will also seek to be socially responsible, including caring for employees, society and the environment, in an effort to be an integral part of local society and culture, as well as a good partner to local government, society and workers.

3. Taiwan enterprise investment in Indonesia: Changes, characteristics and barriers

Taiwan enterprises have invested in Indonesia for more than 40 years, moving from an initial focus on agriculture, forestry, fishing, animal husbandry and related basic processing to manufacturing processing exports, an evolution that also represents a gradual shift from labor intensive industries to capital and technology intensive sectors. More recently, a greater number of Taiwan companies have started to invest in domestic sales and the service sector, showcasing the increasingly diverse investment model embraced by Taiwanese companies.

The friendship Taiwan enterprises have for Indonesia has never been impacted by changes in the external economic environment. For example, after the Asian financial crisis in 1997 when other countries started to adjust their investment strategy and much foreign investment left, Taiwan enterprises continued with their investments. In fact, many Taiwan firms have long since put down roots in Indonesia and cultivated a second generation of local business managers, making it a second home.

In recent years, although the overall investment environment in Indonesia has clearly improved, Taiwan enterprises still face many obstacles to local operations they hope can be resolved. Indeed, based on their special investment features, Taiwan manufacturing firms face a number of common barriers to their operations that involve existing laws relating to labor, taxation, trade, investment human resources,

infrastructure etc. However, enterprises focused on domestic sales face even more barriers in terms of laws and investment permits. In general, problems communicated by Taiwan enterprises tend to be related to production and exports. The main objective in detailing these is to solicit the assistance of the Indonesian government in eliminating related barriers to improved productivity and expand exports. Doing so will ensure Indonesian workers have a more stable employment environment, while enabling Taiwan enterprises to put down long-term roots and achieve sustainable development. Below we list investment related problems identified by Taiwan enterprises in Indonesia and proposals for their resolution we hope government agencies will take on board.

B. Issues of concern for Taiwan enterprises and related proposals

1. Legal system and procedural issues (related ministries: Ministry of Law and Human Rights)

(1) Laws and Regulations

➤ Providing official English versions of regulations in a timely way, improving regulatory transparency

Issues and impact

The biggest obstacle faced by foreign enterprises investing in Indonesia is language. Although the Indonesian government provides simultaneous Indonesian and English versions of certain laws such as the “Income Tax Act” and makes revisions almost in unison, there are often only Indonesian version of laws and enforcement rules in other areas that are important for foreign enterprise investment such as labor, the hiring of foreign employees, the environment, customs, occupational safety etc. As such, enterprises commonly seek the assistance of local translation agencies, law firms, accounting firms and consulting companies or alternatively Indonesian employees interpret rules and regulations. Unfortunately, this approach frequently results in inconsistencies between translations agencies and different interpretations of laws. Indeed, it is often the case that even government officials or administrators have interpretations of laws that are not entirely the same or different ministries might draft laws or ordinances that are incompatible. As a result, foreign enterprises are often uncertain whether they fully understand the law and have to constantly write seeking clarification or personally visit local governments and central government ministries for explanations. This represents a waste of manpower for the Indonesian government, but is even more a huge expenditure in terms of human resources, finances and time for

enterprises as they struggle to understand relevant laws. In such a situation, breaking the law becomes an operational risk for all enterprises.

Other than laws and ordinances, some of the official websites of Indonesian government agencies are only in Indonesian with no English language interface. This includes the website of the Ministry of Manpower and Transmigration, which deals with labor affairs and the National Standardization Agency of Indonesia (Badan Standardisasi Nasional, BSN), which is responsible for production/imports. As a result, foreign enterprises are unable to effectively browse web pages or learn about new laws in a timely manner.

Proposal

In terms of resolving the aforementioned problem, the ITCC has the following proposals which it is hoped will assist the Indonesian government promote the transparency of laws, reduce the operational risks faced by foreign investors and create a better investment environment :

1. Continue to upgrade legislative processes, introduce the good regulatory practices adopted in advanced countries

In recent years, great strides have been made in legislative processes in Indonesia. However, if after a law is passed related enforcement laws and executive orders are completed and announced in a timely manner that would make it easier for enterprises to comply with legal provisions. Moreover, in order to reduce the space for interpretation of laws, which can result in their inconsistent execution, the Indonesian government should make more use of executive orders to establish norms for such substantive content as related definitions, operational procedures, application scope, specific conditions etc. This will ensure enterprises have a better understanding of legal provisions.

2. Timely provision of official English language versions of important laws to avoid the risks associated with interpretative mistakes

Although English versions of important laws have been provided, on occasions the terminology used in the translations is not consistent or there are differences in legal and commercial usage. Improvements in this area would greatly facilitate the compliance of foreign enterprises with existing law. When the Indonesian government promulgates laws, particularly enforcement rules and related executive orders it should simultaneously provide an authoritative official English version. If it is impossible to

do so at the same time, then the English version should be released at least before the law comes into force and foreign invested enterprises be given time to respond.

➤ Make it easier for enterprises to obtain related regulations and interpretations

Issues and impact

Foreign enterprises face two main types of problems in obtaining laws, the first relating to the collection of laws. Taiwanese enterprises have always felt that Indonesian legal norms are rigorous and comprehensive and that related legal provisions are revised in accordance with the prevailing economic climate to keep up with the times. In addition, the Indonesian Ministry of Law and Human Rights (Kementerian Hukum dan Hak Asasi Manusia) has already established an Indonesian Law database at <http://peraturan.go.id/>, making it possible to search for laws on a single website. However, few Taiwan enterprises are aware of this website and therefore engage in their own searches or use relationships to obtain copies of the latest laws. Moreover, even enterprises aware of the website feel data is updated too infrequently and it is in Indonesian, with no English interface, so few Taiwan companies use it. In addition, other than the aforementioned website, agencies under the Ministry of Law and Human Rights have established their own law database at <http://ditjenpp.kemenkumham.go.id>. Clearly, the existence of two law databases under the same department, updated at different speeds, creates a situation that can easily lead to confusion.

The second hurdle relates to enterprises seeking further official explanation of laws. Taiwan enterprises very much hope the Indonesian government will indicate which central government agency they should seek out if a law or explanation is unclear and that such inquiries will receive a response in writing. Moreover, in the future government law enforcement officials should execute their duties based on such written responses.

Proposal

The ITCC hopes the following proposals will help the Indonesian government provide channels for foreign invested enterprises to obtain law-related information, thereby enhancing operators' understanding of the law :

1. Provision of a unified official law database and publication of English language versions of laws

The Indonesian Ministry of Law and Human Rights has already established a law database, but there are two such databases. These should be merged into a single unified database to avoid confusion, which would also reduce the workload of website maintenance staff. However, there are other ways in which the law database can be improved:

(1) Timely updates and uploads of laws and ordinances from all departments:

Over the short-term, all competent authorities in Indonesia should focus on the timely uploading of laws, enforcement rules and executive orders pertaining to their area of responsibility to various official websites. This will ensure enterprises are always up to date on existing laws and relevant revisions.

(2) Provision of an English language interface for the law website, including

comprehensive categorization of laws and a search function: Over the long-term the Indonesian government can reference Taiwan's "Laws and Regulations Database" (English language interface at <https://law.moj.gov.tw/Eng/>). This official laws and regulations website is regularly updated, brings together laws and ordinances issued by different competent authorities and has an English language interface. The database can also be set based on categories of laws and search function, and also links to the websites of competent authorities, making it easier for foreign investors to search. In this way, the same platform can also be used to announce draft revisions to laws, so that interested parties benefit from using it as it allows them to express their opinions on proposed draft amendments.

2. Regular publication and updating of frequently asked questions (FAQs) and related answers as a reference for enterprises

At present, when Taiwan enterprises encounter legal norms they do not understand, most seek the assistance of a law firm, consulting company or write to the competent authority for clarification. Such an approach is not only open to misinterpretation it also increases the administrative burden on government officials. Currently, although the Taiwan Desk introduced at the Indonesia Investment Coordinating Board (BKPM) provides an information inquiry service, there are still occasions when there are questions or confusion about legal provisions that BKPM is unable to resolve. When situations such as this occur Taiwan enterprises would like the Indonesian government to provide further assistance. It is suggested the government should review the

experience of Taiwan and other advanced countries and regularly publish and update frequently asked questions and related answers on websites as a reference for enterprises. This will improve enterprise compliance with the law and reduce the burden on government officials. If we take Singapore as an example, the competent authority for foreign investment in the country is the “Singapore Economic Development Board” (EDB) and it has “Frequently Asked Questions” (FAQ) as an option on its homepage. By pressing the related question foreign investors receive a tentative reply to their enquiry. Taiwan’s government has established the “Invest Taiwan” portal that includes FAQ,¹³ which foreign enterprises can use to learn more about the application process, investment environment, important industry and investment opportunities, investment incentives and relevant laws.

➤Prior to the implementation of new regulations, local governments and competent authorities should be notified and enterprises be given an adjustment period

Issues and impact

Based on the needs of social and economic development and the adoption of international standards, ministries in the Indonesian government are working hard to revise existing law or promulgate new laws to create a more convenient operational environment for enterprises. However, there have been instances when the period between the announcement and official execution of a new law or revision by the Indonesian government has been too short. In addition, such announcements are mainly in Indonesian, making it impossible for enterprises to make preparations ahead of time, which can result in losses or they find themselves breaking the law. For example, commodities in the process of being imported into the country could be in accordance with legal specifications when loaded for shipment, but as a result of the immediate implementation of a new law, by the time they arrive at port the shipment could be in violation of new provisions or lack newly required documentation, again resulting in losses for enterprises. Generally speaking, rigorously compliance with local laws is the guiding principle for enterprises seeking to achieve sustainable operations (especially foreign enterprises). However, the sheer number of laws in Indonesia and the speed at which they are updated means companies find it difficult to obtain up to date information and have insufficient time to prepare. As a result, even when an enterprise

¹³ <https://investtaiwan.nat.gov.tw/faqQPage?lang=cht>.

wants to comply with the law it can still find itself not knowing what to do or caught off guard.

In addition, Taiwanese enterprises have indicated that on occasions they have made applications based on new rules only to have them rejected because administrators at the local competent authority had not been notified of the new rules. In such situations, the enterprise has to rush back and forth searching for an explanation which takes manpower and time, but more importantly can also cause delays in deliveries and result in contract violations.

Proposal

Based on the above, the ITCC suggests that the Indonesian government should allow different adjustment periods for new laws with a maximum period of more than six months, depending on the difficulty of compliance. Moreover, after departments announce a new law, said law should also be sent to the one-stop service window for individual countries at BKPM, which can then ensure foreign enterprises and overseas embassies, business offices etc. receive copies. When necessary, business briefings should be held to reduce the risk of enterprises breaking the law as a result of not receiving timely notification of new laws. The Indonesian central government should also ensure that once a new law has been promulgated, the competent authorities in provinces and cities across the country receive simultaneous notification and that related administrators receive training in the new law, to ensure they have a thorough understanding of its content, meaning and processing procedures.

(2) Execution procedure

➤Maintaining consistency in execution procedures and legal determinations

Issues and impact

Since taking office, Indonesian President Joko Widodo has proposed 16 economic policy packages that have already greatly improved the domestic investment environment. However, there is still room for improvement in organizational efficiency and the executive capability of administrative personnel, as well as the transparency of executive and administrative procedures. Taiwan enterprises frequently encounter law enforcement officials with different standards in a range of fields, including customs, taxation, environment assessment, the work of foreign employees, building license applications, imported product price determination etc. or situations in which central and local government explanations differ. This causes enterprises to not know the right course of action and can even result in fines or demands for payments of back taxes

from the competent authority. The fact that law enforcement standards can differ depending on the individual dealing with an issue not only increases an enterprise's additional operational costs it can also reduce the willingness of small and medium enterprises to obey the law.

Proposal

In order to deal with this problem, the ITCC suggests the Indonesian government should make improvements in the following areas:

1. Before a law comes into force, concrete and operable English language enforcement rules should be announced. After it comes into force the key points of the law should be announced with FAQ and answers, to avoid the existence of grey areas in its execution.
2. The Indonesian government should designate a clear central service window, where operators can seek clarification when a law or explanation is unclear and provide concrete written responses as a basis for the execution of the law, thereby reducing the space for law enforcement officials to act at their own discretion. In addition, enquiry window staff, local officials and related law enforcement officers need to understand that a sub-law cannot transcend the scope of an enabling statute to ensure consistency of the law and thereby reduce the likelihood of investment disputes.
3. In the event of a court judgment and where there are no major changes to the details of a case, it is proposed that the ruling be used as a basis for future cases.

2. Labor issues (related ministry: Ministry of Manpower and Transmigration)

(1) Salaries

➤Maintaining stable salary increases, abolishing minimum wage regulations in designated industries

Issues and impact

For enterprise managers the unreasonable increase in basic minimum salary directly increases expenditure on labor salaries and indirectly impacts other labor costs, such as employee overtime pay, social insurance, medical insurance, redundancy payments etc. It also increases enterprise operational risk and uncertainty. Because Indonesia has abundant young labor, it still retains a sizable advantage in global labor intensive manufacturing industry, attracting investment from many Taiwan enterprises. These employ a large number of Indonesian laborers, making a major contribution to

the creation of employment opportunities, improving people’s living conditions and social stability. However, unreasonable increases in salaries represent a particularly heavy burden for Taiwan companies where labor costs account for a high proportion of operating costs. Moreover, the labor disputes to which this can give rise represents an additional risk to business operations, causing Taiwan enterprises in Indonesia to lose their competitive advantage. In an era of global competition, as soon as a firm finds personnel costs excessive, it is likely to consider relocating its production base to a country where labor costs are lower, which would have a negative impact on industry development, labor employment and economic growth in Indonesia.

Taiwan enterprises expressed support for “Article 78 of the 2015 Government Related Salary Regulations” (PP No. 78/2015) signed and promulgated by the Indonesian government on October 23, 2015. This took inflation and economic growth rate as a foundation for the calculation of annual increases in the minimum wage, and stipulated that a decision on the minimum wage for each province for the next year must be made no later than November 1 every year, a clear improvement on the problem of unreasonable wage rises in Indonesia. However, the Japan External Trade Organization’s (JETRO) “2017 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania” (see table 2) published in December 2017, still shows a projected overall increase in wages in Indonesia of 8 percent in 2018 and quite possibly higher in 2019, the third highest in ASEAN countries, behind only Myanmar and Cambodia. This indicates that wage increases in Indonesia remain higher than in most neighboring ASEAN countries.

Table 2 Overall rate of wage increases in ASEAN countries

Unit : %

ASEAN Countries	2017	2018
Myanmar	8.8	8.6
Cambodia	8.0	8.6
Indonesia	8.2	8.0
Vietnam	8.4	7.9
Philippines	5.5	5.2
Malaysia	4.8	4.6
Laos	4.6	4.4
Thailand	4.2	4.1
Singapore	2.8	2.8

Source : 2017 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania, JETRO.

Although the central government has announced a method for the calculation of annual increase in the minimum wage, local autonomy is high in the country and local governments are in charge of increasing the minimum wage and can stipulate different minimum wages based on regional and industry designations (Upah Minimum Sektoral Kabupaten, UMSK). For example, although the scheduled minimum wage in Karawang, West Java Province (Jawa Barat) was 3,919,291 Indonesia Rupiah, which represented an 8.71 percent increase on 2017, on June 8, 2018, the West Java provincial government passed “NO. 561/Kep.577/Yanbangsos/2018,” designating additional minimum wage levels for 45 industries in Karawang, the highest being 4,547,852.40 Indonesian Rupiah, an increase of 116 percent on the original increase and backdated to January 1, 2018.¹⁴ Such measures make it impossible to control enterprise costs and represent uncertainty for Taiwan and foreign enterprises.

Proposal

After the Indonesian government introduced a formula for calculating the minimum wage in 2015, wage increases became more reasonable. The ITCC hopes the government will continue to effectively control the rate of inflation rate and wage increases by focusing on both workers’ living standards and enterprise competitiveness. This provides a foundation for harmonious labor relations and a stable labor market that enables enterprises to pursue sustainable operations and create more employment opportunities.

At the same time, The ITCC suggests that the Indonesian government consider eliminating minimum wages for different industries and return to a market-based mechanism. The Chambers of Commerce recognizes that local governments introduce minimum wages for designated industries based on a consideration of work environment, danger, health etc. and a desire to provide workers with greater protections. However, industries in which the minimum wage is high are not necessarily the best to develop in Indonesia, the most profitable or the hardest. Moreover, the operational environment or vocational requirements of enterprises in the same industry differ, and as such wage levels should be determined by the special nature of an employee’s position and not an industry designation. Indeed, enterprises already have to pay higher wages and welfare for positions that are higher risk, more tiring or require special skills, to retain personnel, otherwise they will be unable to recruit employees or

¹⁴ <https://spn.or.id/umsk-kabupaten-karawang-2018-telah-disahkan-oleh-gubernur-jabar/> °

face unacceptably high levels of staff turnover. As such, the imposition of minimum wages based on industry designation not only distorts the optimal allocation of human resources and creates inefficient personnel movements, it also offers an erroneous guide to industry development, blocking the further development of enterprises that are competitive or have potential. On that basis, we suggest eliminating minimum wages in designated industries and returning to a market-based mechanism.

(2) Employing foreign employees

➤ Adopt an open attitude to foreign employees and remove unnecessary restrictions on work permit applications

Issues and impact

Talent is considered the key factor driving future industry competitiveness and a friendly labor environment helps companies retain and recruit talent, while boosting national industry development. When an industry is in the process of transformation and upgrading, it requires a wide range of talent, needs that in some instances cannot in the short term be met domestically, making it necessary to use overseas professionals to support enterprises and industry. These foreign employees bring with them new skills and knowledge and through interactions with local staff, enterprises and the public, they transfer those skills or assist with the training of locally needed skills, which results in skills spillover. In other words, the bringing together of diverse international talent helps to enhance the international outlook of the public, making them more willing to accept and learn new knowledge and skills, which stimulates the vital development of innovation and entrepreneurship. Such new growth momentum boosts economic development, providing more quality employment opportunities.

Since President Joko Widodo took office, he has focused on relaxing and simplifying the rules and processes involved in foreign employees applying for work permits as a way of improving the investment environment. However, some Taiwan enterprises have said that standards for approving foreign employee work permits have actually become stricter, including restricted personnel quotas, reducing the valid period of work permits, inexplicable delays in approval and ageism, which makes it especially difficult to get work permits for relatively young or old employees.

The ITCC understands that the Indonesian government seeks to use personnel quotas and reducing the valid period of work permits to protect the rights of local laborers. However, the wage cost of foreign employees is high and they tend to be highly mobile, added to which are social and cultural elements, which is to say based

on a consideration of local culture and costs, if it was not absolutely necessary enterprises would simply not bring in large numbers of foreign staff. The restrictions placed on the use of foreign personnel by the Indonesian government undermines the flexible and efficient use of talent, which increases enterprise's operational costs, adversely impacting competitiveness and the ability to develop markets. At the same time, it also greatly limits the efficacy of technology transfers, forcing enterprises to choose a more conservative approach to investment, all of which is extremely disadvantageous to the economic development, employment creation and national competitiveness of Indonesia.

In terms of the conditions faced by foreign staff applying for work permits, Article 36 in MOM 35/2015 announced by Indonesia's Ministry of Manpower and Transmigration stipulates only that foreign employees must have a corresponding educational background and more than five years related work experience, with zero restrictions on age. However, several Taiwan enterprises have said that it is much harder to apply for work permits for young and old foreign staff. The ITCC would like the Indonesian government, in accordance with existing law, to allow all foreign staff who meet existing educational and work experience requirements to apply for work permits, without the arbitrary addition of additional subjective conditions and to increase the transparency of the process through which foreign national apply for work permits.

Given the development of new technology and new economic models, there is a clear difference between the related knowledge and skills young people learn and those taught in the past. While it is certainly not self-evident that their professional expertise is less than that of other employees, young people do tend to be more open minded and therefore more capable of learning and growing with local Indonesian managers, which has a positive impact on the transfer of technology within enterprises. The main reason for employing older foreign personnel is that the manufacturing sector in Indonesia is currently undergoing a period of rapid development. As a result, there is increased demand for experienced personnel and technical staff to provide on-site guidance and pass on what they know. Most of these individuals learned as part of an apprenticeship system or through the accumulation of practical experience, and in many cases do not possess high academic qualifications or professional certification, which under current regulations makes work permit applications problematic. This impacts a company's ability to organize personnel assignments and also prevents the use of individuals from whom Indonesian managers could learn much about technical proficiency.

Proposal

The ITCC has the following proposals on regulations governing applications for work permits by foreign personnel, the objective being to reduce the limits placed on such applications and increase the flexibility of Taiwan enterprises when deploying talent.

1. Clear standards for reviewing work permit applications to speed up the issue of permits. In 2018, Indonesia promulgated Presidential Decree PR 20/2018 and Ministerial Order MOM 10/2018, which restructured and simplified the employment of foreign laborers and the related permit system. For example, the “Foreign Manpower Utilization Plan (RPTKA)” is now considered a required work permit (IMTA), while the time needed to issue RPTKA has been reduced and its period of validity increased from 1-2 years. In addition, in a labor emergency employers can apply to the Ministry of Manpower and Transmigration for a RPTKA permit within two days of a foreign employee starting work at an enterprise and the ministry will grant permission within one day of receiving an application, a move that has been welcomed by Taiwan enterprises. However, the No. 20 Presidential Decree and Ministry of Manpower and Transmigration’s MOM No. 10/2018 still contain many regulations that are not entirely clear or parts that could contradict earlier rules. As such, the Indonesian government should further review related regulations, clarify problematic areas and then execute the rules, with the objective of simplifying the process of employing foreign personnel.
2. Increase the quota of foreign staff that can be employed and do not include arbitrary and subjective conditions, including any relating to age, as part of the work permit review. In an environment in which new economic and trade situations are developing around the world, enterprises need an increasingly diverse collection of talent and the Indonesian government should adopt a more open and positive attitude when issuing work permits to foreign nationals and not arbitrarily add conditions that do not appear in the law. This is the best way to increase the flexibility with which enterprises employ personnel and the transparency of the work permit application process for foreign nationals.
3. Issue work permits that are valid for the time period enterprises apply. The length of time for which a work permit is valid impacts the arrangement of

schedules for employee's dependents and plans for children to attend school. Taiwan enterprises have said that in recent years the validity period for permits and visas has become increasingly short. For example, if an employee applies for a one year work permit, but instead receives one valid for three or six months, that not only causes problems for an enterprise's human resources arrangements it also creates difficult choices for the employee and his or her dependents. The Indonesian government should review the issuing of work permits based on the period of time for which the enterprise applies and accept or reject such application rather than arbitrarily reducing the period of time for which the work permit is issued.

➤ **Giving recently established enterprises and plants greater flexibility in employing foreign employees**

Issues and impact

When companies or plants are first established, the firm's operational mechanisms are not yet stable and the parent company may need to send managers to provide support with such things as plant building, license applications, laws, taxes, accounting, strategy, operational planning etc. Such assistance is intended to ensure the overseas branch company finds its footing and starts operations or production as quickly as possible. Once the firm is officially operating and tasks are gradually handed over to local employees, several of the foreign managers take a step back. As such, the ITCC suggests that when foreign enterprises first set up companies or plants the Indonesian government should allow them greater flexibility in employing foreign personnel and provide an accelerated review process. This not only enables companies to quickly normalize operations and reduce related costs, it also ensures they start creating employment opportunities, increased tax revenue and foreign exchange from exports much sooner.

Proposal

When an enterprise or plant is first established, it is necessary to send a large number of foreign staff to Indonesia to assist with related issues. As such, we propose that when foreign enterprises first set up companies or plants, the Indonesian government should allow them greater flexibility in employing foreign personnel and provide an accelerated review process, which will allow them to more quickly normalize operations and reduce costs.

(3) Laying-off employees

➤ Reasonable employee dismissal costs

Issues and impact

It is the responsibility of the government to protect labor rights and the ITCC understands that the Indonesian government wants to use labor laws to provide comprehensive protections for local laborers. However, the protection of reasonable labor rights is the best served by a policy that focuses on the interests of both employers and employees.

Taiwan enterprises in Indonesia work to ensure they are aware of and adhere to local laws so that operations are legally compliant and where legal provisions exist they are followed. However, unreasonable labor protections can create a situation where some competitors, in order to reduce costs, adopt methods that are disadvantageous to labor rights in an effort to circumvent legal responsibility. For example, they could replace fulltime employees with contract workers. In that situation, workers not protected and law abiding enterprises are effectively punished. Alternatively, enterprises could seek to reduce labor costs by reducing the number of people they employ.

If we take the example of laying-off of employees, Article 156 of Labor Act UU No. 13/ 2003 stipulates that when an enterprise dismisses workers it must give severance pay (Pesangon), a seniority payment (Uang Penghargaan Masa Kerja) and equity compensation (Uang Penggantian Hak).¹⁵ However, even if an employee

¹⁵ 《Labor Act》 (UU No. 13/ 2003) Article 156

(1) The calculation of severance pay as referred to under subsection (1) shall at least be as follows:

- a. 1 (one)-month wages for years of employment less than 1 (one) year;
- b. 2 (two)-month wages for years of employment up to 1 (one) year or more but less than 2 (two) years;
- c. 3 (three)-month wages for years of employment up to 2 (two) years or more but less than 3 (three) years;
- d. 4 (four)-month wages for years of employment up to 3 (three) years or more but less than 4 (four) years;
- e. 5 (five)-month wages for years of employment up to 4 (four) years or more but less than 5 (five) years;
- f. 6 (six)-month wages for years of employment up to 5 (five) years or more but less than 6 (six) years;
- g. 7 (seven)-month wages for years of employment up to 6 (six) years or more but less than 7 (seven) years;
- h. 8 (eight)-month wages for years of employment up to 7 (seven) years or more but less than 8 (eight) years;
- i. 9 (nine)-month wages for years of employment up to 8 (eight) years or more.

(2) The calculation of the sum of money paid as reward for service rendered during the worker/ laborer's term of employment shall be determined as follows:

violates the terms of his or her work contract, the company's articles of incorporation or mutual labor agreements, and the enterprise has the right to fire said employee after first issuing three warnings, it is still required to pay double severance pay, double service seniority payment and double compensation (Article 161 of the Labor Act).¹⁶ Based on these provisions, if an enterprise wants to fire a worker with three years' experience for the aforementioned reasons, the dismissal costs borne by the company amount to about 6.9 times monthly salary (as calculated based on the provisions of the

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- a. 2 (two)-month wages for years of employment up to 3 (three) years or more but less than 6 (six) years;
 - b. 3 (three)-month wages for years of employment up to 6 (six) years or more but less than 9 (nine) years;
 - c. 4 (four)-month wages for years of employment up to 9 (nine) years or more but less than 12 (twelve) years;
 - d. 5 (five)-month wages for years of employment up to 12 (twelve) years or more but less than 15 (fifteen) years;
 - e. 6 (six)-month wages for years of employment up to 15 (fifteen) years or more but less than 18 (eighteen) years;
 - f. 7 (seven)-month wages for years of employment up to 18 (eighteen) years but less than 21 (twenty one) years;
 - g. 8 (eight)-month wages for years of employment up to 21 (twenty one) years but less than 24 (twenty four) years;
 - h. 10 (ten)-month wages for years of employment up to 24 (twenty four) years or more.

(3) The compensation pay that the dismissed worker/ laborer ought to have as referred to under subsection (1) shall include:

- a. Entitlements to paid annual leaves that have not expired and the worker/ laborer have not taken (used);
- b. Costs or expenses for transporting the worker/ laborer and his or her family back to the point of hire where he or she was recruited and accepted to work for the enterprise [which have not been reimbursed];
- c. Compensation for housing allowance, medical and health care allowance is determined at 15% (fifteen hundredth) of the severance pay and or reward for years of service pay for those who are eligible to receive such compensation;
- d. Other compensations that are stipulated under individual work agreements, enterprise rules and regulations or collective work agreements.

(4) Changes concerning the calculation of the severance pay, the sum of money paid as reward for service during term of employment and the compensation pay that the worker/ laborer ought to have as referred to under subsection (2), subsection (3), and subsection (4) shall be determined and specified with a Government Regulation.

¹⁶ 《Labor Act》 (UU No. 13/ 2003) Article 161

- (1) In case the worker/ laborer violates the provisions that are specified under his or her individual work agreement, the enterprise's rules and regulations, or the enterprise's collective work agreement, the entrepreneur may terminate his or her employment after the entrepreneur precedes it with the issuance of the first, second and third warning letters consecutively.
- (2) Each warning letter issued as referred to under subsection (1) shall expire after 6 (six) months unless otherwise stated in the individual work agreement or the enterprise's rules and regulations or the collective work agreement.
- (3) Workers/ laborers whose employment is terminated for reasons as referred to under subsection (1) shall be entitled to severance pay amounting to 1 (one) time of the amount of severance pay stipulated under subsection (2) of Article 156, reward pay for period of employment amounting to 1 (one) time of the amount stipulated under subsection (3) of Article 156, and compensation pay for entitlements left unused according to what is stipulated under subsection (4) of Article 156.

rules in Clause 3, Articles 156 and 161 of the “Labor Act”), far higher than the 1.4-3 times monthly salary in Taiwan and the more than two times monthly salary in Vietnam and China.¹⁷ If an Indonesian employee has worked at a company for 24 years or more, then an employer would have to pay 21.85 times monthly salary to dismiss such an individual, far in excess of the upper limit of six times monthly salary in Taiwan.

In addition, the “Labor Act” also stipulates that even when an employer fires an employee for cause, such as stealing or falsifying data resulting in losses to the enterprise or committing a crime in the work place punishable with a jail term of five years or more, the enterprise must still pay said employee equity compensation (Article 158). If an employee is detained for six months or found guilty of a crime that has nothing to do with the company, although the employer is within its rights to fire the individual, it must still pay seniority payment and equity compensation and is obliged to look after the employees family (Article 160); In the event the employee violates the labor contract, articles of incorporation or mutual labor agreement leading to the termination of the employment relationship, the enterprise is still required to pay severance pay, seniority payment and equity compensation (Article 161). In the aforementioned examples the employment relationship is terminated because the behavior of the employee has made it untenable resulting in dismissal. In such situations, the employer has already suffered commercial losses and it is unreasonable for the legal system to impose further obligations on the enterprise.

Proposal

In order to ensure a win-win situation for Indonesian enterprises and laborers, it is necessary to simultaneously protect employee’s rights and welfare, while not undermining enterprise and industry development, which involves creating a friendly and law-abiding operational environment. The ITCC propose the following revisions to the “Labor Act”:

1. Review the experience of Taiwan and neighboring countries as a reference in determining a reasonable level of payment when an enterprise dismisses employees and clearly stipulate an upper limit. In Taiwan, the new system

¹⁷ The method of calculation is as follows: According to Article 156, employees who have worked for three years are paid four months severance pay, 2 months seniority service pay, with compensation pay 15 percent of severance pay and seniority service pay or 90 percent of monthly salary. According to Clause 3, Article 161, when an employee is fired as a result of a mistake, enterprises must pay double severance pay, double seniority service pay and double compensation pay, which is four months severance pay, plus two months seniority service pay, plus 90 percent compensation pay, which comes to 6.9 months salary.

calculates severance pay as 0.5 of average monthly salary for every year worked, with severance for a period of service of less than 1 year calculated proportionally and a maximum of six months average monthly salary. According to Article 47 of Mainland China's "Labor Contract Law," employees who are let go are paid one month salary per year worked as economic compensation. For employees who have worked between six months and one year, severance pay is calculated as one year and those who have worked less than six months receive half a month payment. In Vietnam, employees who started in their current position before 2009 receive one month salary for every year worked as severance pay and a minimum of two months. Any employee who has not worked for a full year is not entitled to severance pay.

2. In the event that an employee is dismissed for behavior detailed in Articles 158, 160 or 161 of the "Labor Act," when a court rules in favor of the enterprise or determines the situation is unrelated to the company, given that the employer has already suffered commercial losses, further employer obligations should be eliminated including the requirement to pay severance pay, seniority payment, compensation or dependent subsidies. The enterprise should also not be required to pay the salary of the employee during the period of the lawsuit or when he or she is in detention. The Indonesian government should consider the business situation domestically and overseas and revise the unreasonable elements of the law in accordance with current practices. If necessary, it can refer to Articles 12 and 18 of Taiwan's "Labor Standards Law."

(4) Unions and resolving labor disputes

➤Effectively managing unions and resolving labor disputes according to the law

Issues and impact

In accordance with Articles 5-7 of the Act of the Republic of Indonesia Concerning Trade Union/ Labor Union, 2000 (Act No. 21 of 2000), a group of 10 or more people can establish a trade union in any industry, more than five or more unions can form a federation and three or more federations can create a union confederation. As a result, Indonesia currently has more than 100,000 unions large and small nationwide, under

more than 90 industry federations.¹⁸ Unions are very powerful with occasional strikes but there are also many illegal strikes in contravention of Articles 137-145 of Labor Act UU No. 13/ 2003.

Taiwan enterprises are quite supportive of unions being formed within companies, so much so that when unions wants to hold activities, companies sponsors them financially as a way of maintaining good labor relations. However, the sheer number of Indonesian unions means there are both good and bad and some of the worse ones deliberately incite workers to make unreasonable demands of enterprises for their own selfish interest and ambition, which can lead to labor disputes from which they seek to profit. In addition, although the “Labor Act” UU No. 13/ 2003 gives workers the right to strike, many strikes do not follow the designated legal process and labor disputes are often resolved in ways that are not in accordance with the “Labor Dispute Resolution Law.” This potentially creates huge problems for Taiwan enterprises that employ large numbers of workers.

Proposal

Although Indonesia has a comprehensive mechanism for establishing unions and dealing with labor disputes, in practice it often operates in ways that do not adhere to the law. Indeed, it is often the case that outside unions agitate, which can lead to workers circumventing the existing dispute resolution mechanism and directly striking or appealing to the Labor Bureau. This causes difficulties for the company and can result in threats to property and the safety of company employees. Based on the fact that the Indonesian government has actively sought to improve the investment environment to attract more foreign investment, it needs to ensure effective management of labor unions, especially those established outside companies. Particular focus should be given to continued efforts to strengthen guidance on illegal strikes and dealing with such strikes based on the law, thereby reducing the risks faced by Taiwan enterprises operating in the country. Moreover, the Indonesian government should require workers to adopt legal dispute resolution methods based on the “Labor Dispute Resolution Law” while increasing awareness of the importance of obeying the law and ensuring the Labor Bureau ignores direct appeals when workers have not first negotiated with the company. In addition, foreign invested enterprises should also be given a reasonable amount of time to deal with and resolve the demands of workers, to reduce the negative

¹⁸ <http://indonesia.sinchew.com.my/node/70297?tid=13> °

impact labor disputes have on operations and create a win-win scenario for the company and its employees.

3. Human resources issues (related ministries: Indonesia's Ministry of Manpower and Transmigration, Ministry of Education)

(1) Industrial talent and skilled labor

➤ Establishing more industrial departments to improve technical and vocational education to nurture industrial talent and skilled labor

Issues and impact

In Indonesia, only 7.2 percent of the working population graduated from university, whereas in neighboring Malaysia the figure is 20.3 percent. Moreover, the most popular departments in institutes of higher education are medicine, law and architecture, followed by business management and agriculture. There are few departments teaching industry related subjects such as mechanical engineering, electrical engineering, information etc. If we take the example of information and communications industry, in which the Indonesian government is particularly keen to attract foreign investment, the number of engineers is 2,671 to every 1 million workers. In Malaysia the figure is 3,333 and in Vietnam 9,037¹⁹, which is to say that Indonesia has a serious shortage of engineers. This shortfall in industry related and technical personnel has a direct impact on enterprise production efficiency and also increases employment costs. At the same time, the fact that Indonesian employees lack basic related knowledge severely limits the benefits of technology transfers by Taiwan enterprises, a situation that is detrimental to the transformation and upgrading of local industry.

Proposal

Industry is fundamental to national economic development and requires deep and strong roots. To that end, the Indonesian government needs to increase the number of engineering and industry related departments in colleges and universities across the country, in order to cultivate local manufacturing and engineering talent. In terms of training skilled labor, the government can cooperate with Taiwan in the field of vocational education to draft a suitable technical and vocational education development plan and help Indonesia establish a better education system or vocational training centers. Concrete measures could include establishing vocational training centers or junior colleges, promoting industry-academia cooperation, bilateral exchanges of

¹⁹ <http://setkab.go.id/en/president-jokowi-requests-lpdp-programs-be-focused-precise-directed/> °

Indonesian technical and vocational teachers and students with Taiwan, the establishment of a labor force information system to facilitate the more flexible training of talent, development of a verification system that meets industry needs and investment in equipment to enhance the quality of training.

(2) Professional talent

➤ Enhancing training of professional talent and improving the mechanism to obtain certificates/licenses

Issues and impact

Taiwan enterprises all observe that it is difficult to find professional talent in Indonesia, particularly in positions that require a specialist license to be promoted, such as environmental engineer or “labor health and safety” positions in construction projects. If we look at “labor health and safety” positions, the personnel qualifications required are different for standard plants and construction projects and as such the licenses needed are also different. In the first instance, one requires only basic training to obtain a license, but in the latter advanced training is needed to obtain a specialist license. Taiwan enterprise in the construction industry have indicated that professional labor health and safety personnel are absolutely essential to enterprise operations and the Indonesian government does not allow foreign workers to serve in those positions. However, in a situation where the mechanism for obtaining professional licenses and related measures are inadequate, it is extremely difficult for enterprises to recruit related talent, which leads to hiring chaos as firms resort to poaching and borrowing talent from other firms, increasing operational risk to the enterprise.

In addition to the shortage of professional and technical talent, there is also a lack of senior managers. For example, in 2007, the Japan Bank for International Cooperation (JBIC) issued a “Survey Report on Overseas Business Operations by Japanese Manufacturing Companies” which identified the difficulty finding management talent in Indonesia as one of the key issues faced by Japanese firms investing in the country.

Proposal

The Indonesian government should establish vocational training centers in cities and provinces across the country or commission a third party institution to do so. These could then employ experts in various fields to give courses on management, production, machine operation, labor health and safety, on-site operations etc. The government could also authorize said institution to organize national license/certification examinations or verifications, to maintain the quality of training. Moreover, cultivating

professional talent and helping enterprises conduct on-the-job training will help to reduce the imbalance in the supply and demand of talent.

4. Trade and non-tariff barriers (related ministries: Ministry of Trade)

(1) Tariff barriers

➤ Lowering bilateral tariff barriers

Issues and impact

As the production relationship between Taiwan and Indonesia has become closer, Indonesia has gradually become an important link in the industry chain Taiwan has developed both in East Asia and worldwide. In recent years, the liberalization of trade and rise of consumer markets in ASEAN countries has also made Indonesia an excellent point for Taiwan enterprises to access the ASEAN market. However, although Taiwan companies investing in Indonesia focus on local procurement, production and employment, before improvements are made in the industry supply chain, education, human resources and related supporting measures, they will continue to rely on Taiwan suppliers for much machine and equipment, key technology, raw materials and components. At the same time, they also very much need technical personnel from Taiwan to provide on-site support and guidance.

However, imports from Taiwan by Taiwan enterprises in Indonesia are largely subject to the Most Favored Nation tariff rate under WTO rules, with import tariffs frequently 10 percent or more. Add to that the fact that Indonesia already has FTAs with Japan, Mainland China, South Korea and other countries, and it is comparatively expensive for Indonesian firms to import semi-finished goods, and components from Taiwan, which undermines the deepening of bilateral trade and development of an industry supply chain. As a result, many Taiwan enterprises in the country import goods from China, which increases Indonesia's dependence on imports from that country and reduces the market share of quality goods made in Taiwan. In addition, the Indonesian government has also unilaterally increased the applied tariff rate on some products, greatly increasing the cost of components imported by Taiwan enterprises, while imports from Japan, Mainland China and South Korea, which are subject to zero tariffs, are not impacted. This also increases the unfairness of the tariff costs borne by Taiwan enterprises.

Taiwan enterprises engaged in the aquaculture industry in Indonesia note that because Taiwan and Indonesia have not signed an Economic Cooperation Agreement (ECA), aquaculture products face high tariff barriers which means they cannot be sold

back to Taiwan. For example, if Taiwan firms in Indonesia export frozen squid (HS030743) or lobster (HS030631) to Taiwan, they are subject to a tariff of 15 percent or more, which impacts their ability to compete on price.

Proposal

If Taiwan and Indonesia reduced bilateral tariff barriers it would facilitate greater cooperation between Taiwan enterprises and Indonesian firms, while also boosting the efficiency of the Taiwan-Indonesia industry supply chain, encouraging more Taiwan companies to invest in the country. As such, the two sides should research the feasibility of starting ECA talks as the best way to eliminate barriers to bilateral trade, investment and the flow of people. At the same time, this approach would ensure systems adopt international norms and making trade and investment more convenient, which would facilitate further bilateral industry cooperation, enabling Taiwan to share its experience of industry development with Indonesia, which would create mutual benefits and a win-win scenario.

(2) Customs procedures

➤Simplifying procedures and increasing transparency

Issues and impact

Although Taiwan enterprises investing in Indonesia focus on local production and procurement, they still rely on imports from overseas for certain key raw materials and components. Many have said that the legal framework for Indonesian customs administration lacks precision and transparency, with detailed criteria and inspections, quarantine standards etc. not necessarily made public. In other words, they often require explanations from customs officials or depend on the subjective judgments of enforcement officials. This creates a situation where products that previously cleared customs with no problems might fail to do so at a later date, meaning operators face uncertainty in terms of goods declarations and customs clearance, which is not only a problem for company operations, but delays production and products going on sale, reducing Indonesian productivity and competitiveness. In addition, Indonesia has a complex array of import permits, with opaque and time-consuming application procedures, cumbersome customs procedures, complex customs clearance documents and a lack of consistency in the application of rules by customs officials. All of these issues mean that enterprises spend a lot of time dealing with imports which makes them more expensive.

Since becoming Indonesian President, Joko Widodo has actively sought to improve customs clearance efficiency. Data in the World Bank’s “Doing Business 2018” indicates that the average customs clearance time and cost in the capital Jakarta was 80 hours and US\$384, quite close to the average for customs clearance time in the Asia Pacific Area of 70.5 hours and lower than the average import clearance cost for the area (US\$431). Indeed, Jakarta-based Taiwan enterprises have noted the effort made by the government in this respect. However, customs clearance efficiency in areas other than Jakarta is much worse. For example, the average customs clearance time in Surabaya is 168 hours, which is twice as high as in Jakarta, meaning there remains considerable room for improvement. In addition, customs clearance documents in Indonesia are more complicated than those in other Asia Pacific countries with document preparation taking 119.2 hours, or 1.8 times longer than in other Asia Pacific countries. Moreover, the cost of document preparation (US\$164.4) is also slightly higher (US\$111.4) (for more details please see table 3).

Table 3 Customs clearance time and cost of imports

Country/Area	Border compliance		documentary compliance	
	time to import (hrs)	cost to import (US\$)	time to import (hrs)	cost to import (US\$)
East Asia & Pacific	70.5	431.0	65.6	111.4
Indonesia	99.4	382.6	119.2	164.4
Jakarta	80.0	384.0	119.0	160.0
Surabaya	168.0	376.0	120.0	180.0

Source : The World Bank “Doing Business 2018”.

Taiwan enterprises have said that on occasions when importing equipment or products they have been accused by customs officials of under declaring the price and asked to pay additional tax. However, Indonesian officials are unable to clarify the principles applied in making such price determinations and refuse to recognize any supporting documentary evidence provided by firms. As a result, enterprises not only have to pay additional tax but also quite possibly face delays to their production and sales schedule. This increases costs and introduces an element of extreme uncertainty into operations, disrupts production or sales planning and can even cause commercial disputes.

Proposal

Indonesian customs should draft clear and precise enforcement rules and criteria for important rules and regulations to reduce the space for subjective judgments by customs officials, while also increasing the transparency and certainty of customs

clearance for enterprises. In addition, Indonesian and English language versions of those rules should be provided to reduce the likelihood of misinterpretation. The Indonesian government should also simplify customs administration measures and reduce customs clearance documentation requirements for imports as this will facilitate trade and improve customs clearance efficiency.

5. Investment issues (related ministries: Coordinating Ministry for Economic Affairs, Indonesia Investment Coordinating Board (BKPM))

(1) Investment restrictions

➤ Allowing foreign enterprises to sell self-made products by e-commerce

Issues and impact

In recent years E-commerce has rapidly developed and for enterprises in a country the size of Indonesia this represents a crucial sales channel. However, the revised “2016 No. 44 Indonesian Presidential Law – Table of Regulations on Conditions of Investment in Open and Closed Operating Scope” (DNI) promulgated by the Indonesian government in May 2016, stipulates that only 100 percent domestic owned enterprises can engage in E-commerce retail behavior. Foreign enterprises are not permitted to sell their own made self-made products through E-commerce. For foreign firms, permitting them to sell their products through E-commerce represents one additional sales channel to choose from, it will not disrupt market order or replace Indonesian small and medium enterprises. What it does do is introduce company employees to new digital business, while also stimulating the development of such peripheral services as packaging, distribution and financing. It also provides a chance to deepen exchange and cooperation between foreign and local companies.

Proposal

Indonesian consumers mainly shop at large shopping malls, but shelf space fees in such outlets is high as are the barriers to entry, which is extremely disadvantageous to small and medium Taiwan enterprises with limited resources. Most Taiwan companies in Indonesia focus sales on niche markets, providing local consumers with a range of choices and clearly differentiating from Indonesian products. In the event that excessive marketing and distribution costs force Taiwan enterprises to withdraw from the Indonesian market that would have a negative impact on local industry development, technology upgrading and labor employment.

As E-commerce is an important sales channel in the digital age, the Indonesian government should permit foreign enterprises in the manufacturing sector to set up

websites that sell the products they produce. This will give such firms an additional sales channel to choose from, while also enabling companies in more remote areas to reach a wider number of consumers at relatively low cost. This not only makes it easier for enterprises to expand their business, it also helps to stimulate peripheral services, benefits regional employment and facilitates more balanced development.

➤ **Relaxing restrictions on the shareholdings of single shareholders in banks**

Issues and impact

In December 2016, the Indonesian Financial Services Authority (Otoritas Jasa Keuangan (OJK) issued Regulation No. 56/POJK.03/2016, which fixed the largest shareholding of any single shareholder in a commercial bank at 40 percent (though in special situations and with permission this does not apply, for example when two or more banks merge). This regulation severely impacts the willingness of Taiwan banks to enter the Indonesian market, expand local operations or establish strategic alliances with Indonesian financial institutions.

Taiwan banks are well organized, with ample financial technology, product design, risk management and operational knowledge, so more opportunities to cooperate with Indonesian financial institutions would help with the development of the country's financial sector. Moreover, such banks focus on trade finance and are excellent at US dollar operations, a clear differentiation with the business operations of local banks. In the past, Taiwan banks have helped a great many Indonesian enterprises secure the US dollars they need for operations and in future could assist Indonesian enterprises develop overseas operations. These banks also have much experience providing small and medium enterprises with financing and so could offer local SMEs quality services to meet their financial needs. In addition, Taiwan banks also provide the many Indonesian laborers who work in Taiwan with 24-hour transparent exchange rate services, helping them remit their salaries back home, avoiding the pitfalls of illegal remittances and ensuring their families in Indonesia enjoy a stable life.

Proposal

Based on the experience of developing financial institutions in Taiwan, foreign banks make an important contribution in terms of cultivating local financial talent and introducing advanced operational models, which promote the healthy development of the overall financial environment. Indeed, more than a quarter of senior managers in Taiwan's domestic banks previously worked for foreign banks in the country. The Indonesian government should seek to use the strengths of foreign banks to encourage

local banks to transform and upgrade. Taiwan banks have much experience at home helping small and medium enterprises develop and this unique ability is exactly what industrial development in Indonesia requires. Moreover, Taiwan banks are very much willing to share their experience with Indonesia and help with the development of the Indonesian financial sector. However, the introduction of limits on the shareholdings of single shareholders limits the strength and space of movement available to Taiwan invested banks so the Indonesian government should relax such restrictions. In this way, Taiwan financial institutions will be better placed to expand investment in the country, cultivate financial talent and introduce financial technology, thereby enhancing the competitiveness of the Indonesian financial industry.

(2) Investment procedures

➤Speeding up the foreign investment review process and increasing transparency

Issues and impact

In recent years, the Indonesian government has worked hard to improve the investment process for foreign enterprises, including the introduction of an Online Single Submission (OSS) system to simplify investment procedures and reduce the space for individual manipulation. Taiwan enterprises have been very supportive of the government’s efforts in this area. However, Indonesia was ranked 105th and 121st respectively in terms of the number of days and procedures needed to set up a new enterprise in the WEF “The Global Competitiveness Report 2017-2018,” placing the country well down the global rankings. Clearly, when foreign enterprises invest in Indonesia they still encounter numerous difficulties which ensure it takes a long time to set up a business, a problem that is particularly pronounced in the manufacturing industry. A comparison with the time and procedures needed to establish a company in other countries (see table 4) shows that in Indonesia it takes 11 procedures and 231 days, placing it behind all the ASEAN countries except Myanmar, Laos and the Philippines, an indication there remains considerable room for improvement.

Table 4 Procedures and time required to establish a business in different countries

Country	Starting a business	
	Procedures (No.)	Time (days)
Cambodia	9	99.0
Lao PDR	8	67.0
India	12	29.8

Country	Starting a business	
	Procedures (No.)	Time (days)
Philippines	16	28.0
Indonesia	11	23.1
China	7	22.9
Vietnam	9	22.0
Malaysia	8	18.0
Myanmar	12	14.0
Brunei Darussalam	5	12.0
Taiwan	3	10.0
Thailand	5	4.5
Singapore	3	2.5

Source : The World Bank “Doing Business 2018”.

Currently, Taiwan has one commissioner on the “Taiwan Desk” at BKPM which is dedicated to serving Taiwan enterprises and helps firms process the information needed to invest in the country. However, many Taiwan enterprises have indicated that even if they include all required information with their application, they are still invariably asked for supplementary documents not included in official tables and that the additional documents requested can differ depending on who is dealing with the application, which causes delays and increases costs.

Based on the comments of Taiwan enterprises that recently used the OSS system to apply to establish companies, the system is still insufficiently stable, so that one accidental input of the wrong data and the page can freeze. Moreover, when that happens it is impossible to find someone in charge to help resolve the problem. In addition, enterprises may have a different understanding of input options to the competent authority, so if there are no clear definition or notes detailing the meaning of each item, application information can easily be filled in inaccurately, requiring the applicant to spend even more time making revisions at a later date. In addition, manufacturing enterprises must apply for multiple permits in person from the competent authority where different work takes place, based on the industry to which the company belongs. These include a regional permit (Perizinan Daerah), building permit (IMB), environmental documents (AMDAL/ UPL-UKL) etc. Indeed, the process is so complex that enterprises occasionally encounter divergent interpretations from different administrators or differences of opinion between central and local government that slow down applications. This is particularly true of administrators in charge of building permits, who based on their own lack of professional knowledge relating to plant design, production line arrangements, lines of movement planning etc.

occasionally demand unreasonable alterations to plans. Navigating this process requires repeated communication, a lot of manpower and time, before a related permit is obtained.

Proposal

Foreign investment has always been one of the ways countries seek to stimulate economic growth and it also serves as an important indicator of the vitality and economic competitiveness of an economy. In recent years, the Indonesian government has been actively working to simplify measures related to investment applications, an effort the ITCC has supported. However, the Chambers of Commerce has also made a number of proposals for the government to consider that will improve still further improve the review process for foreign investment. The first of these is that when the system is first put in place central and local government administrators should receive training so that they understand how it operates, including the meaning and content of each inputted item, required documentation etc. together with a service window that provides timely and consistent services to applicants.

Secondly, the Indonesian government should also provide complete Indonesian and English language online application handbooks, which in addition to detailing operational processes need to list definitions of each noun and how to fill in forms, to avoid applications being filled in incorrectly. The government should also improve communications and promotional work with enterprises, accountants, lawyers, scribes and management consultant companies, for example by holding explanation sessions to reduce possible mistakes and difficulties in the application process. In terms of speeding up the process, the ITCC suggests the government provide a list of all required documentation to avoid unnecessary later requests. In addition, administrators should be asked to complete their reviews of operational processes within a fixed time, or file a report explaining the reason for delay. At the same time, an online system should be put in place so applicants can track the progress of their applications and thereby have a more precise grasp of the investment timetable.

(3) Investment incentives

➤ Widening the application of tax allowances

Issues and impact

Investment incentives are a series of measures that seek to attract foreign investment and encourage existing businesses to invest more. Currently, the Indonesian government provides two main types of investment incentives. One of these

is a Tax Holiday, which imposed zero corporate income tax in 17 designated advanced industries for a period of time determined by the size of the investment. When the tax holiday ends, companies pay corporate income tax at a rate of 50 percent for a two year period (Ministry of Finance No. 35/PMK.010/2018). The second type of incentive is Tax Allowances, which focus on companies that meet certain special conditions. Examples include amount invested, export orientation, workforce employed, ratio of own-made products and investment location in 143 business lines. In such situations, companies received a six year tax allowance on corporate income tax equivalent to 30 percent of total fixed asset investment (including plant land) (No. 18/2015).

Taiwan enterprises indicate that they seek to put down long term roots in Indonesia and as such are actively expanding their investment in the country. Although many such firms are in traditional industries such as textiles, footwear etc. they still earn foreign exchange and create large numbers of jobs for Indonesia. At the same time, they are also engaged in long-term technology R&D, their operations have high technology content, and it is hoped the Indonesian government will provide related tax allowance incentives to encourage existing business to expand investment.

Proposal

In order to encourage a wide range of enterprises and industries to develop and put down roots in the country, the Indonesian government should adopt a standard for tax allowance incentives that focuses on the contribution of individual enterprises rather than the industry to which they belong. The government could design related standards based on the contributions enterprises make to Indonesian exports, employment, technology upgrading, industry development or regional balance etc., rather than limiting them to designated industries.

(4) Obtaining licenses and permits

➤Promoting a mutual recognition system

Issues and impact

According to the rules of the National Standardization Agency of Indonesia (Badan Standardisasi Nasional, BSN), when a product involves key elements that relate to public safety, health, environment protection or the economy, the Indonesian National Standard (SNI) of that product will be designated a mandatory standard. SNI are announced for different product categories by different competent authorities, but based on department policy needs these announcements are non-scheduled. For example, mandatory tests for industrial products are the responsibility of the Ministry

of Industry (MOI) and include toys, plastic products, textiles, machinery, electrical/electronic products etc. If these products are to be sold on the domestic market (whether produced domestically or imported) they must be in accordance with related regulations.²⁰

In the “2018 National Trade Estimate Report on Foreign Trade Barriers,” US companies raised the issue of dual testing, whereby products entering the Indonesian market that have already obtained strict US and European Union certification are still required to undergo testing and verification in accordance with SNI rules. However, SNI standards are not entirely consistent with international standards, forcing enterprises to spend more time and money applying to another competent authority, which is effectively a trade barrier to foreign products seeking to enter the Indonesian market. Moreover, SNI standard testing application procedures are complicated and it can take 3-4 months to obtain certification, impacting the manufacturing process of foreign (Taiwan) enterprises in Indonesia.

Proposal

The ITCC believes the Indonesian government should reference international standards in determining the SNI testing and verification system, to reduce the problem of repeat testing, as this will improve the speed with which products made by Taiwan enterprises in Indonesia and imported into the country go on sale and minimize their cost. In addition, the government should also consider establishing a mutual certification mechanism and signing a mutual recognition agreement (MRA) with Taiwan. This would avoid repeat testing and delays to enterprises obtaining certification. Moreover, in Taiwan and other countries around the world many certificates can now be applied for online, which saves time for enterprises. The government should work to strengthen E-government as electronic systems boost overall administrative operational efficiency and this back and forth also helps to greatly reduce the number of mistakes.

²⁰ Product green certification search platform <http://cogp.greentrade.org.tw/Certificate/inside/55>. Chen Meng-chun, Lee Chun (2017), “Analysis of Commodity Inspection Systems and Potential Barriers in New Southbound Policy Focus Countries: Electronic Products,” Journal of Trade Policy No. 27, Dec. 2017.

(5) Investment protections

➤Enhancing substantive investment protections

Issues and impact

In 1990, Taiwan and Indonesia signed the “Republic of China, Indonesia Investment Protection Agreement” (hereafter Taiwan-Indonesia Investment Agreement), but the definition of investment as “any form of asset” differs from more recent international investment agreements. As a result, the standard and inclusivity of protections is clearly different to those afforded investment from Japan, South Korea, Mainland China and other ASEAN countries under the “ASEA+1” framework. In addition, the Taiwan-Indonesia Investment Agreement does not include the treatment of nationals, complete protection or security clauses, saying only that protections should be provided by the law in both countries, which is to say that when actual protections are inadequate it can easily lead to disputes.

Proposal

Although Taiwan and Indonesia signed an investment protection agreement in 1990, that agreement only focuses on such principle-based clauses as “confirming the fair treatment of bilateral investment by both sides.” It offers no clear rules on such things as investment property losses or government claims for compensation, which does not meet the needs of the current time, resulting in a situation where Taiwan enterprises receive only limited substantive protections. In order to guarantee the development of Taiwan companies in the local market Indonesia should update its investment protection agreement with Taiwan as soon as possible, to reflect trends in international investment agreements and the investment protections already enjoyed by other East Asian countries. This upgrade should expand the definition of types of investors and investment categories as a way of strengthening the protections available to Taiwan enterprises.

6. Tax issues (related ministry: Ministry of Finance)

(1) Tax system

➤Improving the tax system, improving tax administration

Issues and impact

Indonesia is currently in a stage of rapid development, with infrastructure, talent education, economic reform and other measures requiring the infusion of huge amounts of capital, which makes stable financial revenue extremely important. However, in order to increase tax revenue, it is necessary to establish a reliable and convenient tax

system. Since taking office, Indonesian President Joko Widodo has done much to reform the tax system, including a nine-month tax amnesty plan in 2016, increasing the remuneration of tax officers and introducing a rotation mechanism to reduce the possibility of illegal taxation, all of which have been welcomed by Taiwan enterprises.

Taiwan companies hope the Indonesian government will continue to improve the transparency of tax collection by clearly listing taxpayers for various taxes, levying targets, tax rate, dates levied etc. Enterprises should be required to pay those items listed and no other taxes. In addition, value added tax (VAT) is an important source of tax revenue, but Indonesian firms and nationals are broadly unaware of the need to give or obtain receipts when buying and selling, which leads to a major shortfall in tax revenue for the government, but also causes difficulties for the operations and tax accounting of Taiwan enterprises.

Proposal

The Indonesian economy is currently soaring, which means such areas as economic construction, improving the investment environment, education and others require a huge amount of financial resources. As such, the government needs to establish a reliable and convenient tax system, continue to improve the transparency of tax collection, strengthen tax education and promotional work, and enhance tax awareness. At the same time, it is also necessary to improve the tax regulations on small scale operations and the willingness to ask for receipts. The government should also seek to improving the efficiency of tax administration by reducing the number of unnecessary inspections of Taiwan and foreign enterprises and instead introduce measures to prevent tax evasion, for example by improving the collection and use of tax data, enhancing the articulation function of computer systems and introducing taxpayer identification management.

(2) Enterprise credit checking

➤Increasing enterprise financial transparency

Issues and impact

The experience of Taiwanese banks in Indonesia shows that the lack of transparency in the financial information of local enterprises means they face great difficulties in checking the credit status of companies, so even if a firm passes a credit and debt review banks are still exposed to considerable risk.

Proposal

Enterprises with in excess of a fixed level of capital should be required to provide regular financial information to the Ministry of Finance. For a reference the financial disclosure mechanism introduced by the Thai government should be reviewed. Alternatively, Taiwan's government currently requires public enterprises with capital of NT\$200 million or more (about US\$6.7 million) to regularly make public financial data, while banks use joint credit operations to better understand the financial status of enterprises and reduce the risk of lending. Moreover, quality financial information not only benefits enterprises by providing more channels for support, it also greatly increases the efficiency of the sort of tax inspections the Indonesian government is currently actively conducting.

7. Infrastructure issues (related ministries: Department of public work,

Indonesian Ministry of National Development Planning (BAPPENAS)

➤Improving infrastructure and quality

Issues and impact

The ITCC understands that in recent years the Indonesian government has focused on building basic infrastructure. Indeed, in 2016 and 2017 a total of 245 strategic infrastructure items were announced and in 2017 President Joko Widodo introduced a unified oil price on all islands in the Indonesian archipelago, a move that overturned the long-term unfair treatment of more remote parts of the country. It also helped to lower transportation costs, demonstrating the government's determination to actively improve infrastructure. However, according to the World Bank's 2018 Logistics Performance Index (LPI), Indonesia's infrastructure, including ports, airports, highways, railways, warehousing and communications, was ranked 54th out of 160 countries worldwide. Other than being ranked a long way behind Singapore (6th) and Mainland China (20th), Indonesia also lagged Malaysia (40th), Thailand (41st), Vietnam (47th) and India (52nd). In addition, more than 80 percent of interviewed workers in Indonesia felt that the quality of the ports, roads and railways in the country was "not good" or "really bad."²¹ It is estimated that transportation costs account for more than 30 percent of the production costs cost of Indonesian goods and for that reason the government needs to focus even more on improving the quality of basic infrastructure and construction timetables.

²¹ <https://openknowledge.worldbank.org/bitstream/handle/10986/29971/LPI2018.pdf> °

In terms of cross-border trade infrastructure, Taiwan enterprises mainly invest in export oriented industries such as footwear, textiles, wooden furniture processing, agriculture/fishing etc. and as such are heavily reliant on port facilities. However, as Indonesian trade has increased, local ports have experienced a huge increase in annual handling capacity and the large number of ships and goods often leads to congestion which can severely impact the ability of Taiwan firms to deliver products on time. Moreover, because port facilities are still not complete logistical costs are extremely high which undermines the international competitiveness of exporting enterprises.

In terms of domestic infrastructure, major metropolitan areas in Indonesia have always had a traffic congestion problem, which often leads to total paralysis after flooding caused by torrential rain. Moreover, outlying islands, cities and provinces suffer from water and power shortages, which added to the inconvenience of domestic transportation means that logistics costs are high. As a result, foreign (Taiwan) enterprises tend to concentrate in Jakarta and the surrounding area, with very few in remoter areas, leading to a severe imbalance in urban-rural development.

Proposal

The Indonesia government could cooperate with Taiwan or foreign enterprises through Public-Private Partnerships (PPP) or adopt the Build–Operate–Transfer (BOT) model to construct infrastructure, accelerate public construction and develop a better investment environment. Export industries are extremely important in the country's current stage of economic development and as creators of employment in Indonesia. The government needs to improve channels that connect it to the outside world to enhance the efficiency of enterprises exporting from Indonesia. As many ports and wharfs in the country are overburdened, it is essential that the government build large scale deep water ports as soon as possible. At the same time, there are insufficient roads connecting to industrial zones so it is important to accelerate the building of freeways to improve the efficiency with which goods are transported. In addition, the Indonesian government also needs to focus more on ensuring the quality and the construction timetable of infrastructure projects.

Part 3 Outlook for the promotion of Taiwan-Indonesia business cooperation

Trade relations and product links between Taiwan and Indonesia are very close. Indeed, not only is Indonesia an important processing base for Taiwan enterprises in ASEAN, it is also an important link in the industry chain Taiwan has developed in East Asia and around the world. In addition, the countries are also highly complementary,

so combining their respective strengths and deepening cooperation will benefit bilateral trade and industry development, creating a win-win scenario for both sides.

Indonesia has an abundance of natural resources and a large and youthful population. It is also currently actively undertaking industry upgrading and seeking to develop high value added industry. In contrast, Taiwan has much experience in the field of industrialization, outstanding manufacturing capability and soft power in such areas as education, medical care, culture, tourism, science and technology, agriculture etc. At the same time, the “New Southbound Policy” being promoted by Taiwan’s government, seeks to deepen the country’s multifaceted relationship of exchanges and cooperation with Indonesia, establishing a comprehensive partnership based on economic development, human resources sharing, quality of life innovation and international connections.

The degree of development in Indonesia and Taiwan is much closer than that in developed countries such as the US, Japan and in the EU. As a result, the industrial experience and technology of Taiwan enterprises is much better suited to the needs of Indonesia than that of other foreign companies. Indeed, Taiwan’s experience of successfully transforming from an agrarian to an industrial country is potentially extremely valuable in terms of guiding economic development in Indonesia. Moreover, the two countries have engaged in bilateral trade and technical exchanges for more than half a century, with more than 200,000 Taiwan nationals living in Indonesia and almost 300,000 Indonesian spouses and laborers in Taiwan. In other words, Taiwan firms feel a certain affinity for Indonesia that is not shared by other foreign enterprises, which adds a degree of sincerity and enthusiasm to industry cooperation. We believe that cooperation between Taiwan and Indonesian enterprises will help speed up reform in Indonesia, promote the restructuring of the country’s industrial structure and enhance its international competitiveness.

There are many areas in which Taiwan and Indonesia can cooperate and the ITCC brings together the strengths of bilateral industry development and also serves as a platform for the opinions of Taiwan enterprises in Indonesia, experts and academics. This year, proposals were made for priority cooperation in the fields of “Agriculture and Aquaculture Cultivation Technology,” “Education and Talent Training,” “Green Energy Technology” and “Intelligent transport and Smart Cities.”

1. Agricultural and aquaculture technical cooperation

Agriculture has always played an important role in the economic development of Indonesia and employs 30 percent of the working population. Indeed, Indonesia is the world leader in the production of white peppers and palm oil, second in rubber, cocoa, rice and third in black peppers. However, despite the country's abundance of natural resources, vast territory and lack of typhoons, a series of unique strengths when it comes to agricultural development, Indonesia's lack of a comprehensive farmland irrigation systems, fertilizer production technology and agricultural machinery, especially small agricultural machine tools, has held back modernization. As a result, traditional planting and rough machining dominate, even though the result is insufficient output and even food shortages.

As the Indonesian economy has gradually taken off the standard of domestic medical care has also improved. Global Insight estimates that by 2030 the country will have a population of 296 million, which will naturally increase food demand. However, at the same time as industrial development and urbanization progress a large part of the agricultural population will transfer to the industrial and service sectors, as a result of which local agriculture will face a labor shortage and inadequate water supply. As such, one of the most important policies of the Indonesian government is to improve the self-sufficiency ratio for domestic agricultural produce and maintain basic stability in food supply. In order to boost agricultural development and the output of agricultural produce the government has implemented a series of measures. These include increasing investment in agricultural infrastructure (for example by building reservoirs to expand water irrigation facilities), drafting stricter inspection standards to limit the import of agricultural products (“On Safety Controls for Imported/Exported Plant Origin Fresh Foods,” “Required Quarantine Measures for Fresh Fruit and Fruit Type Vegetables Exported to Indonesia” and “Farmer Protections and Rights Act”) and expanding international agricultural cooperation (such as the cooperative agreements already signed with India, Saudi Arabia, France, Egypt and Singapore). It is hoped these measures will enhance domestic agricultural technology and productivity.

In addition, Indonesia has more islands than any other country in the world, with a coast line that stretches 55,000km in length and 5,800,000 square kilometers of territorial waters. As such, it has rich fishing resources, with more than 7,000 species of marine fish and is blessed with natural advantages in developing fishing and aquaculture. However, fishing operations and techniques in Indonesia are relatively

backwards, whereas aquaculture cultivation technology is still at the startup stage, so the aquaculture processing industry chain remains incomplete and the output value of the fishing industry accounts for only a small proportion of GDP, with considerable room for improvements in exports. Indonesia also has many rivers with stable temperatures and excellent conditions to develop the fishing industry, as well as the world famous fishing ground Bangka XXX on the east coast of Sumatra. In this context, the government has embraced a strategy of becoming a marine power and is actively promoting a “blue economy” policy. At present, the Indonesian fishing industry is in the process of gradually transforming from catching to cultivation, which is in line with the development of fishing around the world and the sector likely has a prosperous future.

In summary, the current objectives of Indonesian agricultural policy are to enhance the technology and production capacity of the agriculture/fishing industries, maintain product quality and combine that with the agriculture and industry service sector. Taiwan has spent many years improving agricultural technology and aquaculture cultivation technology, using information technology and biotechnology to enhance production efficiency and product added value. As such, Taiwan’s policies, results and implementation experience could serve as an important reference point for the development of Indonesian agriculture. Moreover, introducing Taiwan’s technology and knowledge could help increase the competitiveness of the agriculture/fishing industries in Indonesia, thereby increasing the incomes of individuals who work in those sectors.

After Taiwan and Indonesia signed an agricultural technology agreement in 1976, Taiwan sent technical missions to East Java and Central Java. In 1995, the two countries signed an agricultural memorandum of cooperation; in 1996 a technical mission went to West Java Province and in 2010 a bilateral “one town one product” memorandum of cooperation was signed, followed in 2016 by the Taiwan Indonesia Agricultural Cooperation Agreement. In May 2018, Taiwan and Indonesia officially launched G2G (government to government) cooperation, and once a bilateral cooperation memorandum is signed the two sides will jointly establish a 400 hectare agricultural demonstration area, in an area close to Jakarta. That project involves cooperation on rice planting and fruit/vegetable quality improvements, with plans to expand to 1,000 hectares over the next three years. In 2004, the two countries signed a fishing industry memorandum of cooperation and in 2017 held a Taiwan-Indonesia “Potential

Cooperation in Aquaculture Cultivation and Marine Resources Cooperation” Seminar, in an effort to use Taiwan’s experience and skill in aquaculture cultivation and marine resources management to accelerate the development of the Indonesian aquaculture industry.

In the future, Taiwan-Indonesia cooperation should be built on the foundation established by earlier single point (product) industry cooperation, in an effort to enhance the agricultural industry chain, using the “six grade industry” concept and the integration of production, processing, distribution, and sales to enhance the added value of agricultural products. In more concrete terms, agricultural cooperation between Taiwan and Indonesia can be divided into the following areas of cooperation.

1) Deepen existing cooperative links, expand scope of cooperation. The development of Indonesian agriculture remains mainly product in raw material form, with a low level of commercialization. In the past, Taiwan’s agricultural cooperation and exchanges with Indonesia focused on technical and systemic issues relating to plant varieties, technology, ecology and the environment. In terms of plant species, the two sides have engaged in exchanges on technology, knowledge and talent training, from rice to fruit and vegetables, flowers, aquaculture and forestry, seedlings to vaccines, preventive quarantine, warehouse management and the environment, in which areas they have developed considerable cooperative experience and achieved much. In future, in addition to deepening existing cooperation, Indonesia still needs to improve agriculture/fishing production efficiency, product innovation, product differentiation, product value added etc. This should include maintaining and improving the quality of agricultural products, the use and expanded adoption of agricultural machinery, linking agricultural production and marketing and the cultivation of talent, along with the selection of fish types from designated marine areas and related cultivation technology.

Improving the efficiency of rice planting is of particular importance and Taiwan has much experience building irrigation systems, as well as using fertilizer and small agricultural machine tools, invaluable knowledge for the Indonesian government and farmers. Planting conditions in Taiwan and Indonesia are similar with per capita cultivated area relatively small and the process from sowing rice shoots, to harvesting and drying highly labor intensive. As such, the use of small agricultural machine tools would not only greatly reduce the need for manpower, but also dramatically cut losses and boost output. Unfortunately, the overuse of chemical fertilizers like carbamide or nitrogen, phosphorous and potassium (NPK) has reduced the carbon content in the soil

in Indonesia which undermines crop growth. Moreover, the country is also less proactive in the production and development of organic fertilizer and currently relies heavily on imports. In future, Taiwan and Indonesia can cooperate and engage in technology transfers in this area to improve the quality of domestic fertilizer.

2) Promote cooperation in the field of highly efficient agriculture/fishing product channel value added services. Although Indonesia is actively working to enhance agricultural productivity, agricultural technology and engaging in international cooperation, improvements are still needed in the integration of agricultural product marketing and logistics, as well as processing and added value. Because of Indonesia's many islands and its unique geography, logistics and transportation costs account for 30 percent of total GDP, with basic logistics facilities backwards and old, lacking technology, equipment and computerized information systems. In addition, Indonesia is only in the early stage of creating added value for agricultural products whether by developing processing or eco-tourism etc. As such, Taiwan-Indonesia agricultural cooperation should be extended to link the agriculture, industry and service sectors, combining cooperative work in various single point areas.

In the past, Taiwan and Indonesia agricultural cooperation involved agricultural product marketing and warehouse logistics. In the future, other than deepening the existing cooperative foundation, this should be expanded to include cold chain²² logistics which is closely connected to the development of the agriculture/fishing sectors. At present, the cold chain logistics market in Indonesia is undeveloped, but as soon as the cold chain element in the transport system is interrupted (deviates from required temperature controls) commodities lose their original market value, particularly fresh and processed products. In Taiwan, the use of cold chain logistics by low temperatures foods is up to the global average of 80-90 percent. However, the cold chain logistics industry in Taiwan has 30 years of experience and is well organized, with quality operations from warehousing to delivery, automation, constant temperature, information services, equipment R&D, sales channels etc. Taiwan has not only developed comprehensive system management and technology applications it has also

²² Cold Chain refers to an interlinked process from production to loading/unloading handling, packaging, warehouse management, distribution processing, transportation delivery, sales and information etc. used to maintain the quality of foodstuffs, pharmaceuticals and agricultural produce. This efficiently combines low temperature environment hardware and equipment and products that must be kept at a fixed temperature determined by the manufacturer at all times. This ensures such products, from beginning to end, are processed within a series of logistics networks and supply chain systems that maintain a permanent low temperature.

accumulated much service experience. By cooperating in the field of cold chain logistics, including talent, technology, standard operations and norms, certification, Indonesia can utilize Taiwan's soft power in cold chain logistics to boost the development of its own cold chain industry, thereby reducing economic losses in the logistics process.

3) Promote cooperation in the systemic development of agricultural clusters. The economic benefits created by the agriculture/fishing sectors in Indonesia are ripe for improvement and Taiwan is able to provide experience, technology and equipment to facilitate that outcome. In order to develop agricultural technology, Taiwan established agricultural science and technology parks, creating clusters of agricultural technology firms to promote the transformation and upgrading of agriculture. For example, Pingtung has the only agricultural biotechnology park in the world. This makes use of systematic linking to increase the economic benefits of agricultural development. Moreover, research into biological fertilizer and pesticides not only helps improve the quality of agricultural produce and promotes the development of agriculture it also reduces environmental impact and is therefore environmentally friendly. This is another area in which Taiwan-Indonesia agricultural cooperation can focus.

2. Cooperation on Education and Talent Training

Over the past 30 years, Indonesia has made dramatic improvements in economic development, public health and the cultivation of human capital. On the United Nations Development Programme (UNDP) compiled "Human Development Index (HDI),²³ Indonesia rose from 0.528 to 0.689, ranking in 113th place out of 188 countries. However, when compared to the average score of 0.720 for countries in East Asia and the Pacific, Indonesia's HDI score remains relatively low, an indication that there is much room for improvement in human resources, particularly in the fields of higher education and technical talent. For example, only 7.2 percent of the current Indonesian working population graduated from university, which is much lower than in neighboring Malaysia (20.3 percent). Moreover, the country also has 2,671 engineers per 1 million workers, which is again less than in Malaysia (3,333) and Vietnam with

²³ The Human Development Index (HDI) refers to the life expectancy of someone in a country at birth, combined with education indicators (including average number of years in education and expected number of years of education) and gross national income per capita. Together these elements give us the HDI for individual countries.

9,073. Figures such as these make the local development of information and communications related industries particularly problematic.²⁴

The Indonesian government recognizes that if it does not proactively improve educational levels in the country, particularly in terms of investing in the education of the younger generation, then by 2030, young Indonesians entering the job market will be highly uncompetitive. In the “2017 Government Budget Planning Document,” 400 trillion Indonesian rupiah was earmarked for education related spending, making it the single most important policy until 2030, even exceeding spending on infrastructure on which President Widodo has focused. This indicates the importance the government attaches to improving the quality of education.

As part of this education budget, about 5.3 billion rupiah is designated for scholarships to help Indonesian Master’s Degree and Ph.D. students enroll on domestic and overseas programs. Since 2011, when this policy started, a total of 16,295 students have received scholarships, of which 51 percent chose to study in Indonesia and 49 percent enrolled on overseas programs. Moreover, a majority of those studying abroad focused on science and engineering, subjects most needed by the country. Students studying overseas also include current university lecturers. For example, 2,160 university lecturers received scholarships in 2016. The Indonesian government has shown vision by concluding that it makes more sense to support students attending courses at top universities around the world than focusing exclusively on the long term improvement of the quality of higher education. In 5-7 years, after all the students graduating from overseas schools return and take up positions in the government administration or the education system, these famous school alumni will be instrumental in improving the quality of education in Indonesia.

Comparatively speaking, Taiwan’s education system has developed over a long time. For example, national compulsory education was increased from 6 to 9 years in 1968 and thereafter an active effort was made to recruit outstanding graduates from overseas study programs to take up teaching position on returning home. At the same time as striving to improve the quality of higher education, this also boosted the academic reputation of local universities internationally, enabling Taiwan to rapidly build up its human capital. The country also has a solid foundation in technical and

²⁴ Wu Ying-chieh (2017) “Education and the Program to Change Indonesia,” *CommonWealth Magazine* <https://opinion.cw.com.tw/blog/profile/403/article/5418> (last browsed August 28, 2018)

vocational education. Indeed, such schools ensured that after Taiwan started developing technology intensive industry in the 1970s it never had a shortage of technical talent with the requisite professional knowledge and skills. The skill workers and technicians cultivated by vocational schools and junior colleges became the driving force for Taiwan's technology intensive industries. They also contributed to the world renowned "Taiwan Experience," enabling the country to become one of the "Four Asian Dragons" with most economic development potential. In this context, Taiwan's experience could serve as an invaluable asset in the development of education in Indonesia as technical and vocational education is exactly what Indonesia needs to train technicians and technical teachers. It is also an important field for Taiwan-Indonesia education and talent training cooperation.

In point of fact, Taiwan and Indonesia started to cooperate in education several years ago. In 2011, the two sides signed a "Taiwan-Indonesia Higher Education Memorandum of Cooperation" and in 2016, Taiwan enterprises in Indonesia led the way in establishing "Formosa Teknologi Sentral," which transplanted Taiwan technology and vocational education to the country. At present, the center offers classes in Computerized Numerical Control (CNC) lathe machines, milling machines, programming etc. On completion of their studies it also assists students find suitable work with a focus on good paying positions and has attracted a lot of young Indonesians keen to learn new skills. The next stage for the center is to train a large number of seed teachers who can teach classes at local schools, as the fastest way to develop local technical talent and elevate the technological level of the whole country.

In late 2017, 59 colleges and universities in Indonesia signed 587 cooperative agreements with Taiwan and in April 2018, 25 Indonesian universities signed 722 education cooperation agreements with 40 schools in Taiwan. As part of this, National Taipei University of Nursing and Health Science established a healthcare education center in Yogyakarta, the only Taiwan university hospital designated by the Indonesian government as a training center in advanced professional nursing techniques. Moreover, in order to promote industry-academic cooperation Indonesia has also signed letters of intent with Taichung Veterans General Hospital International Medical Service Center and Asia University Hospital. These agreements represent an effort to make use of Taiwan's experience at developing successful technical and vocational education and industry-academic cooperation, to enhance the professional skills of Indonesian students.

From the above, it is clear that Taiwan and Indonesia have already established a solid foundation for further educational cooperation. In terms of future cooperation in higher education and talent training, in addition to strengthening exchanges and cooperation between the respective education systems, the technical center model established by Taiwan enterprises and local schools and industry-academia type cooperation are areas worth developing further, with further analysis presented below:

1) Deepening exchange and cooperation between higher education systems. Data from UNDP indicates that on average Indonesians receive 7.9 years of education, with 77.44 percent of those over the age of 25 reaching an educational level above elementary school, but only 7.88 percent have received a college education or higher. Moreover, only 49 percent of college and university teachers in Indonesia have a master's degree or higher and only 7 percent have a Ph.D. Although the Indonesian government has already invested a great deal of resources on scholarships to help students' study for master's degrees at home and overseas, it will take 5-7 years for the first graduating students to return home and take up jobs. Taiwan developed higher education a long time ago and those students who studied degrees overseas have long since returned and helped boost local education. They also helped promote a series of events that established contacts with renowned foreign schools, including student exchanges and dual degree programs, which increased the level of internationalization and helped to improve the overall quality of the education system in Taiwan. As such, Taiwan and Indonesia could embrace a wide range of cooperative formats in higher education, from academic exchanges, to student exchanges and interviews with scholars to online teaching (open courses), Indonesian students studying in Taiwan and Taiwanese colleges and universities establishing educational centers in Indonesia. In addition, such immediate cooperation provides a conduit through which Taiwan's outstanding education system and quality teaching can be shared with colleges and universities in Indonesia.

2) Expand the technical center cooperation model and talent training. Indonesia is an important country for Taiwan enterprise investment and Taiwan has long embraced an approach whereby enterprises and schools cooperate in the cultivation of the talent needed by business, a model that Taiwan-Indonesia cooperation should build on. For example, teachers from Taiwan teach courses at "Formosa Teknologi Sentral." Indonesia is a vast country with a huge number of islands and so one technical center was never going to meet the needs of local industry development. As such, we should

expand cooperation between overseas Taiwan enterprises and domestic schools to establish technical centers and perhaps even a university in Indonesia. Together with career guidance and industry internship systems, these can be used to strengthen vocational teaching and industry-academic cooperation in the fields of industry and services, which will help build up and grow human capital in Indonesia, while also cultivating talent for Taiwan enterprises in the country.

3) Establish a model for industry-academia cooperation and internships. In terms of the technical talent needed for industry development, other than the standard knowledge and skills cultivated in higher education and the technical and vocational system, the most important thing is an internship at an enterprise. Only in such a position can individuals combine theory and practice, use the specialties they have learned and become the professional talent the enterprise needs. Other than Taiwan's strength in information and communications related hardware and software industries, the country also has a competitive advantage in such new technologies as artificial intelligence, Internet of Things, robotics etc. At the same time, Taiwan has also built up much technology and experience in response to global warming and the development of green energy, environment protection, green buildings etc. For example, at present there are about 26 green building evaluation systems in the world and Taiwan is only the fourth country in the world after the UK, US and Canada to adopt a scientifically quantified green building evaluation system. It is also currently the only one to have independently developed an evaluation system that can be used in tropical and sub-tropical areas.²⁵ In addition, Taiwan enterprises have also worked hard in the field of environment protection, for example by developing PET bottle recycle fiber yarn, coffee ground yarns and other environmentally friendly materials, which not only represents a contribution to the reuse of waste materials, but also creates functionally improved textiles. As Indonesia develops its economy, if it makes greater use of Taiwan-Indonesia industry-academic cooperation (whether cooperating with Taiwan enterprises in Indonesia or enterprises in Taiwan), using the professionalism and experience of Taiwan enterprises to boost the development of Indonesian industry is certain to improve the production capacity of local manufacturing while reducing its environmental impact and helping Indonesia cultivate technical talent.

²⁵ See Taiwan Green Building Council website:
<http://www.taiwangbc.org.tw/tw/modules/news/article.php?storyid=82> (last browsed August 28, 2018)

3. Green energy technology cooperation

A combination of population growth, economic expansion, rapid industrialization and urbanization mean that Indonesia consumes more energy than any other ASEAN country, accounting for roughly 40 percent of total energy consumption in the ASEAN bloc. Moreover, the country's demand for electricity is growing by an average of 7-9 percent per year, while economic growth is leading to the degradation of its natural resources and environment. In 2011, with the speed of global warming starting to attract greater attention to environmental issues, Indonesia published a "National Greenhouse Gas Emissions Reduction Action Plan." This aimed to reduce the Business as Usual (BAU) emission of greenhouse gases by 26 percent before 2020, a target that with sufficient international support could reach 41 percent.

In recent years, Indonesia has developed policies on sustainable development, green growth and climate change, while gradually establishing national green industry to implement the Paris Agreement. Moreover, realizing its international responsibility to reduce greenhouse gases emissions and relieving the pressure created by the exhaustion of natural resources will not only stimulate demand in the domestic green market, it will also promote investment in Indonesian green industry by foreign enterprises. For example, in 2014 Indonesia promulgated a revised National Energy Plan which focused on reducing energy exports and domestic use. Policy aims included domestic energy composition made up of 30 percent coal, 25 percent natural gas, 22 percent oil and 23 percent renewable energy by 2025. In other words, relative to the current composition of energy use, consumption of natural gas will grow by a factor of more than two, and renewable energy by a factor of 11, with the goal being to increase the use of renewable energy to 31 percent by 2050.

Green energy includes the fields of renewable energy, energy conservation, environmentally friendly equipment, green buildings, and low-carbon transportation. The Indonesian government has already started to focus on the balanced development of industry and environment protection, but green industry is still in its infancy, with products and equipment largely dependent on imports, and as such related technology, systems, specifications and norms require further confirmation. Comparatively speaking, Taiwan has built up much experience and capability in the development of green industry. It has complete industry supply chains for green industry products and equipment (including solar energy, LED lighting, electric vehicles etc.) and has also developed measurement techniques and drafted laws. In addition, Taiwan companies

also have excellent green industry soft power, including in energy conservation technology services, equipment improvement, environmental recycling systems, waste reuse, and environment treatment planning, all of which relate to innovative and general planning capability. If Indonesia can adapt Taiwan's developmental experience to its own situation it will save much time in determining the correct path for domestic green industry development, accelerate the establishment of green emerging industry and achieve policy objectives ahead of time.

Moreover, Taiwan has already started cooperating with Indonesia in the field of green industry, mainly with exchanges through the "APO Center of Excellence on Green productivity."²⁶ Since 2014, Taiwan has sent Green Service Technical Teams to six ASEAN countries (Vietnam, Indonesia, Philippines, Laos, India and Thailand) to provide technical services focused on resource recycling, green energy, green plants and ecological agriculture. The missions have invited leaders in industry, government, academia, research and experts to exchange ideas on business needs. In Indonesia, they have provided guidance to paper making and textile dyeing plants, improved plant air conditioning, air pressure efficacy, waste water treatment, recycling and reuse. Since 2017, the focus has been on the development of a solar energy microgrid market in the country's many offshore islands.

In the future, it is clear that Taiwan and Indonesia will cooperate over a wide range of green technology which can be divided into three areas:

- 1) Deepen existing cooperation between Green Service Technical Teams and Indonesian industry. In 2013, the Asian Productivity Center established its APO Center of Excellence on Green Productivity (APO COEGP) in Taiwan and this platform is used to share the country's experience promoting green economic growth in other member countries. This transforms competition into cooperation, stimulating regional innovation and sustainable development as members work together to improve green productivity and competitiveness. In 2014, the Ministry of Economic Affairs, Ministry of Foreign Affairs and the Environmental Protection Administration established Green Service Technical Teams, the members of which include experts from government, industry, academia and research institutes. These teams engage in green technology

²⁶ The Asian Productivity Organization's "Center of Excellence on Green Productivity" was established in Taipei in 2013, by the Industrial Development Bureau, MOEA, bringing together inter-department resources in conjunction with the APO.

exchange with APO member countries.²⁷ Taiwan has already shared with Indonesia its experience in the fields of integrated energy efficiency enhancement, green building energy saving, waste water processing and waste management technologies. At the same time, assistance has also been given to improve plant equipment in such energy intensive industries as petrochemicals, paper making, textiles and ceramics. Based on the huge demand for electricity in Indonesia and the aforementioned policy objectives, the cooperation model embraced by Taiwan's Green Service Technical Teams in the country should be deepened and broadened to make the most of Taiwan's strengths and expertise in promoting the development of green industry.

2) Promote Taiwan-Indonesia green energy industry cooperation. The Indonesian government has promulgated green energy industry related policies and listed target goals for the next 10-30 years. In terms of renewable energy, these include hydroelectric power and geothermal power generation as sources of national power supply. In addition, remote areas or islands are to build small scale hydroelectric and solar energy plants, developing biomass power generation based on agriculture and waste, with wind power and marine power pilot projects. In terms of energy saving, promoting LED lights was taken as a starting point for the policy and gradually expanded to other industries. For environment protection, focus was placed on improving air, water and soil pollution. With green buildings, construction companies are being encouraged to adopt environment protection principles in the design, construction, operation and management of buildings and in dealing with the impact of climate change; In terms of low-carbon transportation, efforts have been made to promote the development and spread of electric vehicles, encouraging enterprises to develop and produce such vehicles and the public to buy them, to create a more environmentally friendly transport environment.

However, these promotions need to be backed up by a strong industrial foundation and technical capability. Moreover, if we look at Indonesia's current industrial development, there are many technical deficiencies, whether in terms of product design, production capacity and measurement techniques. Taiwan has had much success in the aforementioned areas, as seen by its mature industries in the fields of solar/geothermal energy, microgrids, resource recycling, waste treatment and reuse, electric vehicle

²⁷ The APO has 20 member countries and territories including (in alphabetical order) Bangladesh, Cambodia, Republic of China, Hong Kong, Fiji, India, Indonesia, Iran, Japan, South Korea, Laos, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Thailand, Vietnam.

charging infrastructure and battery technology and LED lighting. In addition, Taiwan's experience in island development and construction can also provide solutions adapted to local conditions to ease developmental bottlenecks in Indonesia. For example, although the country has natural advantages in the development of geothermal energy, the lack of an underground cold water source means it is unable to use an ORC binary cycle system for cooling purposes. However, a power generator developed by a Taiwan company overcomes this problem, using hot spring water to generate electricity and a special nozzle to increase water flow to achieve ten times the power generation of normal power generators. In that context, the two countries should launch bilateral industry technical cooperation based on the needs of Indonesian development. On the one hand, this will reduce Indonesia's need to import related equipment products, but it will also enable the country to establish green energy industry technical capability, which will benefit the residents of remote areas and islands while simultaneously helping to combat global warming.

3) Work together to establish green energy related industry standards and legal system. Although Indonesia has drafted a development policy and objectives for green industry, real world execution still requires confirmed industry standards, product specifications and related legal systems. For example, clearer standards are needed on how to obtain an energy-saving home appliances mark, environment protection laws and recycling systems, energy saving equipment certification systems and production specifications for energy-saving products (such as electric vehicles). Taiwan has already developed related norms and certification systems, while drafting energy efficiency standards for key production equipment in such high energy consumption industries as paper making, petrochemicals, textiles, electronics, steel and cement. In the future, the two countries could cooperate on legal systems, industry standards, product specifications, jointly establishing systems and standards to boost the development of green energy industry in Indonesia.

4. Intelligent transportation and smart city cooperation

Major cities across Indonesia are proactively promoting smart city programs, which both highlights their interest in modern technology and establishes a foundation for the country to meet the demands of the urban population and resolve existing problems. For example, the Indonesian capital is currently promoting the Jakarta Smart City program, one of many introduced by the local government to improve resident's living standards and ensure sustainable resource management. At the same time, it is

also hoped that this will help to resolve the long-term problems of poor air quality, susceptibility to flooding and traffic congestion.

Indonesia's second city Surabaya is focused on the rollout of an E-government program and using online systems to manage financial affairs. In the third largest city of Bandung in West Java Province, an effort is being made to develop smart city technology. Although Bandung is not the first to launch a smart city program, it is the first in the country to establish a Smart City Control Center, which uses the Internet of Things and monitoring systems to monitor local transport and public facilities use in real time. Other cities such as Jakarta have already followed suit, making it a benchmark for the development of smart cities in Indonesia. Currently, Bandung government is integrating smart surveillance and monitoring systems and in the not too distant future will launch a smart lighting system. In this way, a smart city prototype is gradually taking shape and being implemented.

In addition, Medan, the largest city on the island of Sumatra, is looking into an intelligent transportation system program, while Makassar the capital of South Sulawesi Province has not only issued a smart card that allows residents to engage in cash-free transactions, it is also using smart surveillance systems to monitor road safety and traffic congestion. The development of smart cities in Indonesia revolves around the plans of local governments, which have drafted smart city promotion programs based on their own current development and needs, with the results of such work held up as important achievements by local leaders. As such, smart cities are being actively promoted with much progress made across Indonesia.

However, success or failure in promoting and executing smart cities and the degree to which cities become smart very much revolves around the vision and executive capability of political leaders. Those promoting such plans must have a deep understanding of the development of smart cities, a plan for their introduction, digital capabilities, problem solving skills and sufficient imagination to execute the project. It is also important to locate suitable talent and enterprises to ensure the project is carried out and for Indonesian enterprises this is a major challenge. For example, local governments around Indonesia clearly have different understandings as to the definition of "smart city." As a result, Bandung has established a Smart City Control Center, showcasing itself as an innovative and can-do city, but other cities consider themselves to be smart after doing little more than setting up government websites. As such,

promotional and educational work on “smart cities” and the training of related personnel remain important links in the development of smart cities in Indonesia.

Smart cities emphasize the broad use of information and communications technology, including sensing technology, wired/wireless networks, mobile Internet and cloud computing technology. Taiwan is an important global center for the information and communications industries and is a key supplier of semiconductors, displays and electronic parts. At the same time, Taiwan also has advanced technology and high quality production capability when it comes to product design and production in the Internet of Things, Artificial Intelligence (AI) and robotics. Although Taiwan enterprises used to focus on single product manufacturing as a foundation, in recent years companies have actively engaged in systems integration, combining Taiwan’s strengths in hardware and software to develop diverse innovative applications and service models. Examples include, smart transportation, logistics, medical care, campuses, families etc. Taiwan has already achieved much in the field of smart cities and the focus in the next development stage will be “food health and safety,” “disaster prevention,” “consumer shopping,” “environmental monitoring,” “home life,” “travel and tourism,” “convenience of movement,” “energy efficiency,” “senior care” and “crime prevention.” These areas can then be expanded to touch on various areas of people’s lives, creating an all-encompassing smart and comfortable living environment.

In summary, Indonesia’s smart city related demands and the progress Taiwan has made in urban construction mean that Taiwan’s experience and project execution capability could be extremely useful to Indonesia. Moreover, many Taiwan enterprises are able to provide comprehensive smart city resolutions and the Taiwan External Trade Development Council (TAITRA) has also organized a “Taiwan Smart City Team” to assist ASEAN countries, including Indonesia, build smart cities. At present, the team is holding talks with MNC Group, the largest media company in Indonesia, about the hardware and software service needs of a smart city development program run by the group. After considering the strengths of Taiwan enterprises, the current industry development situation and smart city planning needs in Indonesia, future cooperation between the two countries should focus on three areas:

- 1) Deepening Taiwan-Indonesia industry chain cooperation. The planning and construction of smart cities requires the support of a strong information and communications industry and although the policies of the Indonesian government have successfully encouraged many international brand industries to build plants in the

country problems remain. For example, Indonesia's rule that 30 percent of the components of 4G smartphones and above must be self-produced resulted in Apple establishing a research & development center in the country and Samsung has already built a local production line. However, when it comes to Internet of Things (IoT) related production, Indonesia's design and manufacturing capability remains inadequate, especially its lack of technical personnel able to integrate hardware and software. In addition, Indonesia imposes an average import tariff of 2-3 percent on networking devices, so if all products were imported that would create a sizeable amount in tariff fees. As such, future cooperation between Taiwan and Indonesia will not only include Taiwan enterprises directly investing in plants in Indonesia, it could also involve promoting technical cooperation between Taiwan and Indonesian enterprises. Compared to businesses from other countries, the production networks of Taiwan enterprises are flexible enough to adjust to local conditions and quite open. These features are beneficial to improving supply chains and will also benefit Indonesian enterprises as they seek to connect to the global industry chain, thereby elevating the level of industry development and energizing local industry clusters.

2) Promoting Taiwan-Indonesia systems integration cooperation. In recent years, Taiwan's information and communications enterprises have been actively developing systems integration and achieved much in the field. Examples include Electronic Toll Collection Systems (ETC), smart city transportation, lighting, logistics, public safety, medical care and healthy living, for which partial solutions have already been developed, with the ability to integrate hardware and software to provide one-stop services. This meets both the habits and needs of Indonesia in procuring hardware and software equipment. In this way, the two countries can cooperate on projects that meet Indonesia's planning and related needs in building smart cities, through the development of resolutions that not only suit the country's distinctive environment, but also allow Taiwan enterprises to use experimental sites overseas to learn how to better adapt to local conditions and embrace international operations. For example, Adventech Co., Ltd., a leading industrial computer enterprise in Taiwan, has been in the Indonesian market for 15 years, but only established a branch firm in the country five years ago, which works with local systems integration operators and recently began providing after sales service and engineering technology support. Currently, the firm has already participated in the building of smart cities in Indonesia, including train station

digitization, as well as mini computer and industrial computer products required by Mass Rapid Transit Systems.

3) Strengthening Taiwan-Indonesia information security cooperation. Because the Indonesian public is inadequately informed about information security, prevention measures remain incomplete. As a result, the country has become a target of online hacking attacks in recent years and a relay station where international hackers can hide their identities. For example, a hacker attack on websites in Australia was traced back to a server in Indonesia that was broken into by hackers. Indonesia's development and building of smart cities and the large scale use of cloud technology greatly increases the demand for information security. Such cooperation will not only reduce the risk of Indonesian citizens' private information leaking, it will also maintain the normal operation of smart systems. Taiwan is extremely strong in "hacking prevention" information security talent and has a lot of experience in the field as evidenced by the fact that IMB handed its global information security product development to a Taiwan team. Indeed, Taiwan's R&D capability in the field of information security is trusted by international enterprises, which is to say that bilateral cooperation between the two countries will enable Taiwan to help the Indonesian government build a more impregnable information security system.

Part 4. Conclusion and proposals

1. Taiwan enterprise investment in Indonesia – overview and features

Taiwan enterprises first invested in Indonesia in 1971, but investment volume accelerated after 1990. Initial estimates indicate there are currently about 2,000 Taiwanese companies in the country employing roughly 20,000 people and mainly investing in the textile, footwear, furniture, metal product, tire, non-metallic mineral, non-metallic mineral, trading, restaurant and agriculture/fishing industries. Geographically, investment is concentrated in Jakarta, Bandung, Surabaya, Semarang, Medan and Bali Island. The operations of Taiwan enterprises in Indonesia have not only boosted industry development and earned the host country foreign exchange reserves they have also made an outstanding contribution to the cultivation of local talent and technology enhancement.

As Taiwan enterprise investment in Indonesia has increased, the production links between the two countries have become increasingly close, so much so that Indonesia has gradually become an important link in Taiwan's global and East Asia industry chain. Taiwan-Indonesia-Europe/US and other countries have close trilateral trade relations and this investment and division of labor has not only promoted the development of trade between Taiwan and Indonesia it has also stimulated bilateral society-to-society and cultural exchanges. Taiwan has a large number of overseas compatriots, businesspeople and officials in Indonesia and Indonesia has a great many laborers, spouses and students studying in Taiwan that boost societal and cultural ties. At present, approximately 260,000 Indonesian laborers are employed in Taiwan, with up to three quarters involved in home care work, making it the number one source of foreign workers engaged in social welfare in Taiwan, who make an important contribution to social stability. The other quarter of Indonesian laborers work in the manufacturing sector, mainly concentrated in the fabricated metals, mechanical equipment, textiles, plastic products and other industries, making them one of the main sources of foreign labor for Taiwanese industry. Indonesian laborers who come to Taiwan not only create a huge amount of foreign exchange for their home country, they also gain experience in home care, production techniques and plant management, skills that can be taken home and used to establish their own companies or find them work with local enterprises.

Indonesia is also the third largest source of foreign spouses in Taiwan. As of August 2018, there were nearly 30,000 Indonesian spouses in the country, accounting

for about 6 percent of the total number, with nearly 20,000 children from such unions attending elementary and junior high schools. However, in recent years there has been a change in the nature of such marriages. Whereas in the past it was predominantly Indonesian women getting married to Taiwanese men and moving to Taiwan, more recently, as investment has deepened, an increasing number of Taiwan businessmen and officials stationed in Indonesia have married locals and settled down there, making it home for them and their families. As they come to identify with Indonesia more closely, many Taiwan enterprises seek to be socially responsible by introducing green production technology to the manufacturing process, thereby maintaining the sustainability of Indonesian industry and the environment. At the same time, companies and the ITCC also given generously of their time and money for local poverty alleviation, charity and disaster relief activities.

Taiwan enterprises have invested in Indonesia for more than 40 years, moving from an initial focus on agriculture, forestry, fishing, animal husbandry and related basic processing to manufacturing processing exports, an evolution that also represents a gradual shift from labor intensive industries to capital and technology intensive sectors. More recently, a greater number of Taiwan companies have started to invest in domestic sales and the service sector. The operations of Taiwan enterprises in Indonesia have not only helped to increase exports and earn sizeable foreign exchange reserves, they have also provided more than 1 million employment opportunities, while nurturing the technical and management talent needed by local industry. At the same time, these enterprises have developed industry supply chains, enhancing local production and supply capabilities. It is also worth mentioning that as a result of the affinity Taiwan enterprises feel for Indonesia, the friendship between the two countries has never been impacted by changes in the external economic environment. For example, after the Asian financial crisis in 1997, when other countries started to adjust their investment strategy and much foreign investment left, Taiwan enterprises continued with their investments. Indeed, as a result of the investment and hard work of those companies, the number of trained technical personnel in the country has gradually increased and the industry chain improved. This has reduced the need for imports and established a solid foundation on which more foreign investment can be attracted.

Indonesia has an abundance of natural materials and a population that is kind and generous. Added to that is that fact that in recent years the government has sought to simplify and relax certain domestic laws, while simultaneously accelerating trade links

with the outside world, highlighting its investment potential. The results of these efforts can be seen in the way Indonesia’s ranking has risen in many global economic and trade indexes. However, despite the fact that the overall investment environment in Indonesia has clearly improved, Taiwan enterprises in the country continue to encounter numerous barriers to business that urgently need to be removed. Based on their special investment features Taiwan firms face a number of common barriers in various areas, including existing laws, labor, human resources, trade, investment, tax and infrastructure. It is hoped the Indonesian government will listen to these companies and work toward eliminating these obstacles as that would boost the operational efficiency and competitiveness of Taiwan enterprises, making it easier for them to put down roots and achieve sustainable operations. It would also enable such companies to make an important contribution to reform and opening, structural reorganization, the relaxation of laws, optimization of the business environment and accelerated adoption of international norms. Below, we summarize issues of concern to Taiwan enterprises looking to invest in Indonesia and related proposals, in the hope government agencies will help to address these problems.

2. Taiwan enterprise’s investment concerns and proposals

Issues	Proposals
1. Legal Norms/Systems and Procedural Issues	
(1) Legal norms	<ul style="list-style-type: none"> • Improve transparency of laws: Use enforcement rules and administrative orders to ensure laws are clearer and more inclusive; Provide English language versions of important laws in a timely manner to reduce the risk of misinterpretation. • Help enterprises more easily obtain copies of laws and related explanations: Unify official law databases, announce English versions of laws, while regularly publishing and updating frequently asked questions (FAQ) and answers as a reference for enterprises. • Prior to the official implementation of new laws ensure local governments and officials at competent authorities have been notified and allow an adjustment period of six months or more depending on the difficulty of compliance.
(2) Executive Procedures	<ul style="list-style-type: none"> • Ensure uniformity in execution procedures and legal standards
2. Labor Issues	
(1) Salaries	<ul style="list-style-type: none"> • Maintain steady increases in salary, eliminate minimum wage regulations in designated industries
(2) Employment of foreign personnel	<ul style="list-style-type: none"> • Foreign employees should be treated fairly, with unnecessary restrictions eliminated from the work permit application process. Related proposals include clear work permit review

Issues	Proposals
	<p>standards, accelerated issuance of work permits and an increased quota for foreign employees. Moreover, subjective conditions, including those related to age, should not be arbitrarily included as part of the work permit review process and permits should be issued for the time period for which enterprises apply.</p> <ul style="list-style-type: none"> When companies or plants are first established, companies should be given greater flexibility in the use of foreign personnel and related application reviews conducted more quickly.
(3) Employee dismissal	<ul style="list-style-type: none"> The cost of dismissing employees needs to be made more reasonable. It is suggested that Indonesia reference the experience of Taiwan and neighboring countries in determining a reasonable level of payment for dismissed employees, with a clearly stipulated upper limit. In order to keep up with the times and based on the domestic and international business situation, unreasonable regulations detailed in Articles 158, 160 and 161 of the “Labor Act” should be amended.
(4) Unions and labor disputes	<ul style="list-style-type: none"> Effective management of unions is necessary, particularly those established outside companies and labor disputes should be resolved in accordance with the provisions of the “Labor Dispute Resolution Law.”
3. Human Resources Issues	
(1) Industry talent and skilled workers	<ul style="list-style-type: none"> More industry related departments should be established at colleges and universities with technical and vocational education improved to cultivate more industry talent and skilled labor. In terms of the training of skilled labor, the Indonesian government could cooperate with Taiwan in the field of vocational education to draft a suitable technical and vocational education development plan.
(2) Professional talent	<ul style="list-style-type: none"> The Indonesian government should establish or commission a third party to establish vocational training centers in cities and provinces across the country. This will strengthen the training of professional talent and improve the mechanism for obtaining related licenses/certification.
4. Trade and No Tariff Measure Issues	
(1) Tariff barriers	<ul style="list-style-type: none"> Immediately launch consultations and prepare for ECA talks with Taiwan, to reduce bilateral tariff barriers.
(2) Customs procedures	<ul style="list-style-type: none"> Draft clear enforcement rules and criteria for important customs rules and regulations to reduce the space available for customs officials to act on their own discretion, while also improving the transparency and certainty of enterprise customs clearance. Provide both Indonesian and English language versions of regulations to reduce enterprise misinterpretation. Simplify customs administration measures and reduce the number of documents required for customs clearance to

Issues	Proposals
	better facilitate trade and improve customs clearance efficiency.
5. Investment Issues	
(1) Investment restrictions	<ul style="list-style-type: none"> • In the digital age, E-commerce is an important sales channel so the Indonesian government should permit foreign firms in the manufacturing industry to sell the products they produce through their own website. • The shareholding limit of 40 percent on single shareholders in banks should be relaxed.
(2) Investment procedures	<ul style="list-style-type: none"> • Central and local government administrators require education and training, so they can provide a consistent and timely service window for foreign investors • Provide a complete Indonesian and English language operational handbook detailing online applications to eliminate the misunderstandings of applicants. • Improve communications and promotional work with enterprises, accountants, lawyers, scribes and management consultant companies, to reduce the possibility of mistakes and difficulties during the application process. • List all required documentation in one place to avoid unnecessary supplementary requests and speed up the application process. • Reviews and operational procedures should be completed within a fixed time, with an online system established so applicants can track the progress of their applications and thereby have a more precise grasp of the investment timetable.
(3) Investment incentives	<ul style="list-style-type: none"> • It is proposed that tax allowance incentive standards should be designed based on the contribution an enterprise makes to Indonesian exports, employment, technology enhancement, industry development or regional balance and not be limited to specific industries.
(4) Obtaining licenses and permits	<ul style="list-style-type: none"> • Reference international standards in determining how the SNI verification system operates, to reduce the problem of dual testing. • Consider establishing a mutual certification mechanism system or signing a mutual recognition agreement (MRA) with Taiwan, to reduce the time it takes for enterprises to obtain certification.
(5) Investment protections	<ul style="list-style-type: none"> • Based on trends in the development of international investment agreements, the Taiwan-Indonesia investment protection agreement should be upgraded to expand its definition of investor types and investment categories, thereby strengthening the protections afforded Taiwan enterprises.
6. Tax Issues	
(1) Tax system	<ul style="list-style-type: none"> • Establish a reliable and convenient tax system, continue to improve the transparency of tax collection, strengthen tax education and promotional work and enhance tax awareness.

Issues	Proposals
	<ul style="list-style-type: none"> • Improve tax regulations on small scale operations and work, improve public willingness to ask for receipts. • Reduce unnecessary inspections of foreign and Taiwan enterprises and thoroughly implement tax evasion measures.
(2) Enterprise's credit checks	<ul style="list-style-type: none"> • Enterprises with in excess of a stipulated level of capital should produce regular financial information to be submitted to the Ministry of Finance. As a reference see related financial disclosure mechanisms introduced by the Thai and Taiwan governments.
7. Infrastructure Issues	
Infrastructure and quality	<ul style="list-style-type: none"> • Cooperate with Taiwan and foreign enterprises on infrastructure projects through PPP or BOT, to accelerate public works projects. • Improve links to the outside world, build large deepwater ports and more freeways.

3. Outlook for promoting Taiwan-Indonesia business cooperation

Indonesia has an abundance of natural resources and a large and youthful population. It is also currently actively undertaking industry upgrading and seeking to develop high value added industry. In contrast, Taiwan has much experience in the field of industrialization, outstanding manufacturing capability and soft power in such areas as education, medical care, culture, tourism, science and technology and agriculture. At the same time, the “New Southbound Policy” being promoted by Taiwan’s government seeks to deepen the country’s multifaceted relationship of exchanges and cooperation with Indonesia. The aim is to establish a comprehensive partnership based on economic development, human resources sharing, quality of life innovation and mutually beneficial international connections.

The degree of development in Indonesia and Taiwan is much closer than that in developed countries such as the US, Japan and in the EU. As a result, the industrial experience and technology of Taiwan enterprises is much better suited to the needs of Indonesia than that of other foreign companies. In addition, Taiwan firms feel a certain affinity for Indonesia that is not shared by other foreign enterprises, which adds a degree of sincerity and enthusiasm to industry cooperation. We believe that cooperation between Taiwan and Indonesian enterprises will help speed up reform in Indonesia, promote adjustments in the country’s industrial structure and enhance its international competitiveness. There are many areas in which Taiwan and Indonesia can cooperate and this year the ITCC has sought to summarize the strengths of bilateral industry development and the opinions of Taiwan enterprises in Indonesia, experts and academics. The result is a series of proposals for priority consideration in the fields of

“Agriculture and Aquaculture Cultivation Technology,” “Education and Talent Training,” “Green Energy Technology” and “Intelligent Transport and Smart Cities.”

1. Agriculture and Aquaculture Cultivation Technology

- (1) Deepen existing cooperation and expand the scope of operation. In the past, Taiwan has engaged in agricultural cooperation and exchange with Indonesia in the field of planting varieties, techniques, ecology, environment related technology and systems. In the future, efforts should be made to deepen this work, with new cooperation focusing on improving the production efficiency, product innovation, differentiation and added value of the agriculture/fishing sectors. Examples include rice planting efficiency, fertilizer quality etc.
- (2) Promote cooperation with the highly efficient agriculture/fishing product distribution added value service industry. Taiwan-Indonesia agricultural cooperation should be extended to embrace the linking of agriculture, industry and services, thereby strengthening the combination of various single point cooperative projects. For example, cooperation in cold chain logistics which is closely connected to the development of the agriculture/fishing sectors.
- (3) Promote cooperation in the systemic development of agricultural clusters. Taiwan can provide its experience in establishing agricultural technology parks, using the clustering of agricultural technology enterprises to promote the transformation and upgrading of agriculture operations.

2. Education and Talent Training

- (1) Deepen exchange and cooperation between higher education systems. Taiwan and Indonesia can launch immediate cooperation in the form of academic exchanges, student exchanges, visiting scholars, online teaching (open courses), Indonesian students studying in Taiwan, Taiwan’s colleges and universities establishing teaching centers in Indonesia etc. In this way, Taiwan’s outstanding education system and quality teaching can be shared with colleges and universities in Indonesia.
- (2) Expand the technology center model of cooperation and talent training. At present, the Formosa Teknologi Sentral established by Taiwan enterprises in Indonesia invites teachers from Taiwan to give courses. In future, overseas Taiwan enterprises could work with Indonesian schools to establish technical schools.

This would strengthen industry and service sector vocational teaching and industry-academia cooperation, meeting the development needs of local industry.

- (3) Establish an industry-academia cooperation internship model. Through Taiwan-Indonesia industry-academic cooperation, Taiwan enterprises can use their strengths and experience to boost industry development in Indonesia. This will improve the production capability of the local manufacturing industry while also reducing its environmental impact and help Indonesia to cultivate technical talent.

3. Green Energy Technology

- (1) Deepen the existing cooperation between Taiwan's green service technical teams and Indonesian industry, by focusing on ways Taiwan's strengths and areas of specialty can be used to assist the continued promotion of green energy in Indonesia.
- (2) Promote Taiwan-Indonesia technical cooperation in the field of green energy industry. In the future, the two countries can undertake green energy industry technical cooperation in areas that meet the development needs of Indonesia. Examples include, solar energy, microgrids, resource recycling, waste treatment and reuse, electric vehicle charging infrastructure and battery technology, LED lighting etc.
- (3) Establishment of joint green energy related industry standards and legal systems. Taiwan and Indonesia can cooperate on legal systems, industry standards and product specifications to develop shared systems and standards that will boost the development of the green energy industry in Indonesia.

4. Intelligent transport and Smart Cities

- (1) Deepen the Taiwan-Indonesia industry chain. Other than encouraging Taiwan enterprises to directly invest in the building of plants in Indonesia, companies from the two countries can also be encouraged to engage in technical cooperation. Compared to firms from other countries, the production network of Taiwan enterprises is more able to adapt to local conditions and open. That makes it possible to improve the supply chain and incorporate Indonesian enterprises as part of the global industry chain, which elevates the level of industry development and boosts local industry clusters.
- (2) Promote Taiwan-Indonesia systems integration cooperation. In recent years, Taiwan's information and communications companies have actively embraced

systems integration and achieved much in the field. Examples include electronic toll collection (ETC) systems, smart city transport, lighting and logistics. In the future, bilateral cooperation in the field can be deepened in line with Indonesia' s smart city development plans and related needs.

- (3) Strengthen Taiwan-Indonesia cooperation in information security systems. In recent years, Indonesia has become a target of online hacking attacks and been used as a relay station for international hackers looking to hide their identities. Taiwan has many “hacking prevention” information security personnel and considerable experience in the field, so it is perfectly positioned to help the Indonesian government create a more impregnable information security system.

Appendix

1. Introduction to World Taiwanese Chambers of Commerce

As the amount of investment undertaken by Taiwan enterprises overseas has increased, Taiwanese Chambers of Commerce have been established around the world. In order to bring together the strength of those disparate associations and improve the services available to Taiwan companies, the World Taiwanese Chambers of Commerce (WTCC) was officially established in September 1994. The WTCC embraced a five point mission statement in its efforts to serve its members: (1) To encourage Taiwan enterprises around the world to work together to develop business and expand international markets; (2) To improve contacts, mutual assistance and friendship between Taiwan enterprises around the world and exchange experience in business administration, academia, science and technology; (3) To provide Taiwan enterprises around the world with business and financial information, thereby enhancing regional business cooperation; (4) To improve the international position of Taiwan enterprises and encourage host countries to protect their rights; (5) To promote global social and cultural exchange to better facilitate mutual understanding and economic development.

The WTCC has about 40,000 members in 189 area chambers of commerce, operating in 73 countries, and six continent-based branches representing Asia, Europe, North America, Central and South America, Oceania and Africa, a scale of operations that make it a private organization with global impact. In September 2009, the WTCC opened a permanent office in Taipei to service Taiwan enterprises around the world.

The WTCC has one president who serves a single one-year term in office and the directors of the continental branches serve as deputy presidents. In accordance with the organization's charter the president can appoint a volunteer secretary-general, and financial officer to assist with WTCC business. In addition, there are 17 committees for Election Affairs, Public Fund Management, Mainland China Taiwan Enterprise Work, Women's Affairs, Taiwan-based Activities, Taiwan Enterprise Elite Training, Business Opportunity Promotion, Discipline, International Affairs, Public Relations, Projects, Education and Culture, Overseas Taiwan Enterprises Panshi Award, Expertise, Network Information, Publications, Rules and Regulations etc. In recent years, the WTCC has guided the continental branch organizations in establishing youth chambers of commerce, to encourage a younger generation of Taiwan enterprises to join. In October

2010, the World Taiwanese Chambers of Commerce Junior Chapter was established in Taipei to promote the legacy and sustainable development of the WTCC.

The WTCC brings together information from different sources to serve Taiwan enterprises across the world. The objective is to ensure those companies are able to work more closely with governments in host countries and make greater contributions to local society, creating win-win-win scenarios. The organization also helps to convey the opinions of Taiwan enterprises to the Taiwan government, so they have fewer concerns at home. Whether in Taiwan or other countries, the WTCC is the number one organization representing the interests of Taiwan enterprises wherever they operate.

2. Introduction to Asia Taiwanese Chambers of Commerce

In the late 1980s, Taiwan enterprises began to invest more in Southeast Asia and from 1990-1992, Taiwanese Chambers of Commerce were established in several countries but there was little interaction between them and they remained unconnected. As a result, the founding president of the Taiwan Chamber of Commerce in Thailand Mr. Yu Sheng-ching met with the heads of the chambers of commerce in the Philippines, Malaysia, Singapore, Indonesia etc. and proposed the establishment of an Asia Taiwanese Chambers of Commerce (ATCC).

In July 1993, the ATCC was established in Taipei and outlined a five point mission statement: (1) To encourage Taiwan enterprises in Asia to cooperate in the development of business and expansion of international markets; (2) To improve contacts, mutual assistance and friendship between Taiwan enterprises in Asia and exchange experience in business administration, academia, science and technology; (3) To provide Taiwan enterprises in Asia with various business and financial information, thereby strengthening regional business cooperation; (4) To improve the international position of Taiwan enterprises and encourage host countries to protect their rights; (5) To promote social and cultural exchange between Asian countries to better facilitate mutual understanding and economic development.

The ATCC has more than 27,000 enterprise members in 12 official branches in Thailand, Philippines, Malaysia, Singapore, Indonesia, Japan, Hong Kong, Macau, Vietnam, Laos, Cambodia and Brunei, with six observer countries and areas, including Bangladesh, India, Myanmar, East Timor, Jeddah and Guam. A South Korean branch is also about to be established. The organization has one president with the directors of its national branches serving as deputy presidents, a standing council, business council and board of supervisors. In addition, there are 14 committees for Election Affairs, Public Affairs, Industry, Corporate Charter, Publishing, Education and Culture, Financial Affairs, Mainland China Taiwan Enterprises, ATCC Affairs Promotion, Discipline, Young Entrepreneurs, Crisis Management, Long-term Development and ASEAN Affairs Development. There is also an office responsible for communicating with members and consultants. The ATCC falls under the World Taiwanese Chambers of Commerce (WTCC) and is as an excellent platform for member countries to conduct exchanges, develop business opportunities and promote investment. This is particularly true at a time when the members of ASEAN are developing rapidly and as the ATCC

seeks to combine resources from different sources to provide its members with even better services.

3. Introduction to Indonesia Taiwanese Chambers of Commerce

In the 1980s, Taiwanese compatriot resident in Indonesia set up an informal “Technical Union.” In 1991, Taiwan enterprises officially established the “Jakarta Taiwan Business Association” to promote trade and investment cooperation throughout Indonesia, but especially the Jakarta area, and this was the first communications platform connecting Taiwan enterprises in Indonesia. As the number of Taiwan companies investing in Bandung and Surabaya increased, the “Bandung Taiwan Business Association” and “Surabaya Taiwan Business Association” were established in June 1991 and February 1992 respectively.

In 1994 the “Indonesia Taiwanese Chambers of Commerce” (ITCC) was established and outlined a four point mission statement: (1) To encourage Taiwan enterprises in Indonesia to cooperate in the development of business and expansion of international markets; (2) To improve contacts, mutual assistance and friendship between Taiwan enterprises in Indonesia, and exchange experience in business administration, academia, science and technology; (3) To provide the Indonesian government with information on economic policies and business related laws, thereby strengthening regional business cooperation; (4) To improve the international position of Taiwan enterprises and encourage host countries to protect their rights.

In 1998, the “Batan Island Taiwan Business Association” was established and in August the same year the Indonesian Rattan Furniture Production Center of Cirebon established the “Cirebon Taiwan Business Association.” Thereafter, other Taiwan business associations were set up in Northern Sumatra (Medan,), Bali Island and Central Java (Semarang). At present, other than the ITCC, there are eight Taiwan enterprises business associations in Indonesia with almost 2,000 members. The ITCC has one president with the directors of its district chambers of commerce serving as deputy presidents and district supervisors as organization supervisors. A secretary-general and chief financial officer also assist with ITCC business.

The ITCC leads district chambers of commerce in the service of Taiwan enterprises. It also facilitates communication on policy and investment promotion between Taiwan enterprises, and the governments of Taiwan and Indonesia. In recent years, the organization has provided services so Taiwan enterprises can work together more closely and attach more importance to such efforts, thereby optimizing the role of the chambers of commerce. In addition to promoting exchange and cooperation

between Taiwan and Indonesia in the fields of economics, trade, investment and industry, the ITCC is also an active participant in local charity activities and through its many contributions to Indonesian society serves as a model of social responsibility for Taiwan enterprises.

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