

THE ASEAN BUSINESS OUTLOOK SURVEY 2011

INDONESIA REPORT



Compiled by:

The American Chamber of Commerce (AmCham) in Singapore

1 Scotts Road #23-03/04/05 Shaw Centre Singapore 228208

Copyright Standards

This document contains proprietary research, copyrighted materials, and literary property of the American Chamber of Commerce in Singapore and the American Chamber of Commerce in Indonesia. It is for the guidance of your company only, and is not to be copied, quoted, published, or divulged to others outside of your organization without the permission of the American Chamber of Commerce in Singapore and the American Chamber of Commerce in Indonesia.

This document is of great value to the American Chamber of Commerce in Singapore and the American Chamber of Commerce in Indonesia. Accordingly, international and domestic laws and penalties guaranteeing patent, copyright, trademark, and trade secret protection secure the ideas, concepts, and recommendations related within this document.

No changes may be made to this document without the permission of The American Chamber of Commerce in Singapore and the American Chamber of Commerce in Indonesia.

TABLE OF CONTENTS

1. Introduction	4
Research Background & Objectives	4
Survey Methodology	4
Brief Outline of Results	5
2. Business Outlook	6
World Economic Outlook	6
Current Business Climate	7
Importance of ASEAN Markets in Global Business	7
Effectiveness of ASEAN	9
Business Direction and Movement in ASEAN	11
Profit Outlook	13
Workforce Expansion	14
Employment of Expatriates	15
Expatriate Concerns	16
3. Factors Impacting Business in Indonesia	17
Local Business Environment Factors	17
Major Strengths	17
Major Concerns	17
Other Local Business Environment Factors	18
Economic Conditions	19
Taxation	20
International Educational Institutions	21
Corporate Social Responsibility	22
4. Conclusion	23
Appendices	24
(A) Local Factors Impacting Business	24
Table A-1: Satisfaction with Factors Impacting Business	
Table A-2: Satisfaction with Local Government Institutions	
(B) Reasons for Business Expansion in ASEAN over the Next Two Years	25
Table B-1: Reasons for Business Expansion	
(C) Importance of ASEAN Markets over the Next Two Years	25
Table C-1: Reasons for saying ASEAN markets will be more important	
(D) Sample Profile	26
Table D-1: Workforce and Turnover	
Table D-2: Scope of Responsibility/Primary Activity	
(E) Reasons behind the choice of country for business expansion	27

1. Introduction

Research Background & Objectives

The American Chamber of Commerce in Singapore (AmCham Singapore), in cooperation with other AmChams in the ASEAN region, conducted a study among U.S. companies based in seven Southeast Asian countries: Cambodia, Indonesia, Malaysia, Singapore, the Philippines, Thailand and Vietnam.

This study is now in its 10th year. The purpose of the study is to understand members' outlook on business growth in Southeast Asia and their perceptions about a series of local factors. The members surveyed were senior executives, working with a company held by or with an American majority interest. AmCham Singapore developed a survey design using a web-based instrument.

This report presents the feedback received from executives of U.S. companies in **Indonesia**.

Survey Methodology

Table 1.1

Survey Scope:	Senior Executives of U.S. Companies based in Indonesia
Sample Size:	A list of 129 AmCham members with e-mail contacts was provided by AmCham Indonesia. Response rate was about 29% (38) at the end of the data collection period.
Data Collection Method:	Web-based, self-administered survey. No enforcement on participation.
Data Collection Period:	May 18 to June 8, 2011

Sample Profile

(See Appendix D)

- Most respondents (86%) in Indonesia are responsible for only one country.
- The majority of respondents (54%) have a workforce between 50 to fewer than 500 employees in the region.
- 40% of the respondents' companies had a 2009 turnover in Indonesia between \$1 and \$50 million.
- 73% of respondents stated that their companies' past year's turnover in Indonesia was below 5% of their companies' global turnover in 2009.
- The largest portion (48%) of respondents' 2009 turnover in Indonesia was between 5 and 25% of their companies' total ASEAN turnover.
- For the highest rate of respondents (32%), Thailand held the next largest turnover in ASEAN for their companies.
- Regarding respondents' primary business activities, the percentage of respondents in the manufacturing sector increased from 24% in 2009 to 29% in 2010, and jumped to 40% in 2011. The rate that chose "other" jumped dramatically from 14% in 2009 to 39% in 2010, and decreased to 30% in 2011. This jump corresponded with a major decrease in the percentage of respondents in the services sector (from 60% in 2009 to 35% in 2010). In 2011 this percentage further decreased to 30%.

Brief Summary

BUSINESS OUTLOOK

World Economic Outlook:

- 54% predict a better or much better performing economy in 2011 than in 2010.
- 61% of respondents in the 2010 survey predicted a better or much better economy in 2010 than in 2009.

Current Business Climate:

- Respondents facing significant financing constraints decreased from 29% in 2010 to 22% in 2011.
- Respondents facing higher costs of borrowing increased from 6% in 2010 to 14% in 2011.

Importance of ASEAN Markets in Global Business:

- 62% of respondents feel that ASEAN markets have increased in importance to their companies in the past two years.
- 71% of respondents expect ASEAN importance to increase in the next two years.

Effectiveness of ASEAN:

- 69% of respondents find ASEAN integration important to helping their companies do business in the region.
- 81% of respondents use the ASEAN FTA.
- 58% of respondents use the ASEAN-China agreement.

Business Direction and Movement in ASEAN:

- 67% of respondents' companies expanded in ASEAN in the past two years. 81% plan to expand in ASEAN in the next two years.
- The largest rate of respondents (72%) plan to expand in Indonesia.

Profit Outlook:

- 59% expect a profit increase in 2011.
- 70% expect a profit increase in 2012.

Workforce Expansion:

- The rate of respondents expecting a workforce increase in the coming year rose from 21% in 2009 to 44% in 2010 to 58% in 2011.
- 45% of respondents predict a workforce increase of 5% to 10%.

FACTORS IMPACTING BUSINESS IN INDONESIA

Economic Conditions:

- 91% expect overall Indonesian economic growth to expand.
- 95% expect an increase in cost of living.
- 84% expect the Indonesian rupiah to appreciate against the U.S. dollar.
- 78% expect an increase in housing cost.
- 49% expect the interest rate to increase.

GRAPHS AND CHARTS

Figure 1: World Economic Outlook in 2011 in Comparison With 2010 Economy

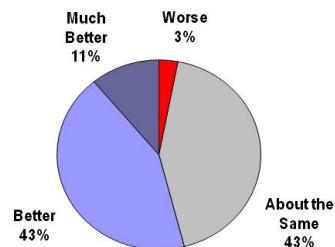


Figure 2: Growth of ASEAN Importance over Next Two Years

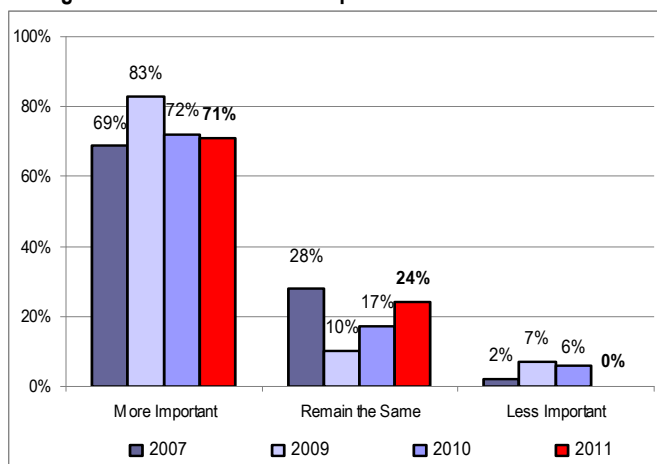


Figure 3: Profit Outlook 2011

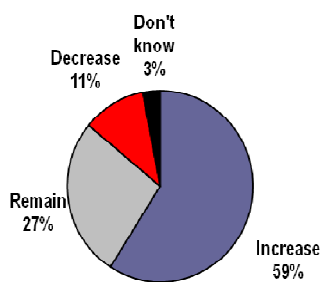
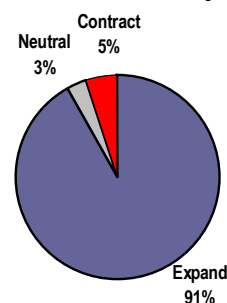


Figure 4: Expectations of Indonesian Economy



Major Strengths (% satisfied)	Major Concerns (% Dissatisfied)
Availability of low cost labor (68%)	Corruption (89%)
Housing cost (57%)	Infrastructure (70%)
	Laws & regulations (68%)
	Local protectionism (61%)
Office lease cost (49%)	New business incentives offered by government (54%)
	Tax structure (53%)

2. BUSINESS OUTLOOK

2.1 World Economic Outlook

Figure 2.1.1: Expectations for performance of world economy compared with 2010

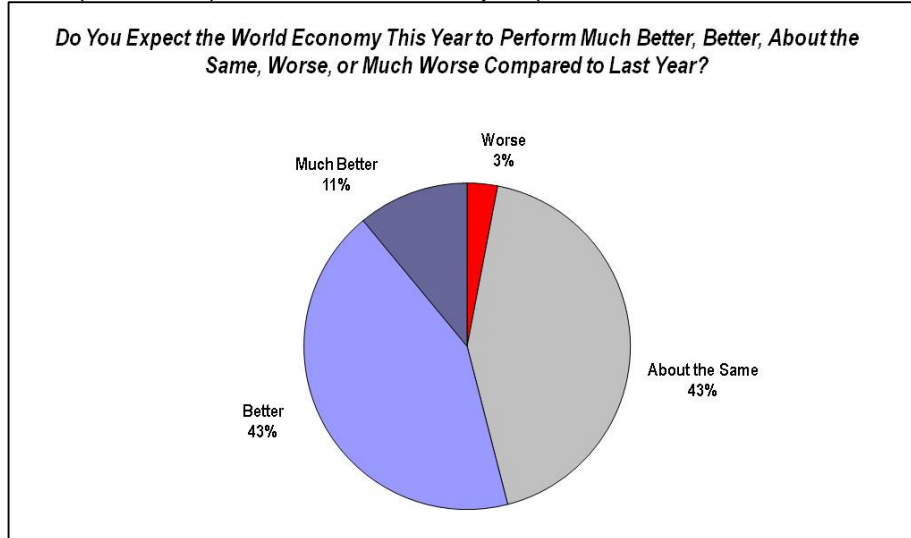
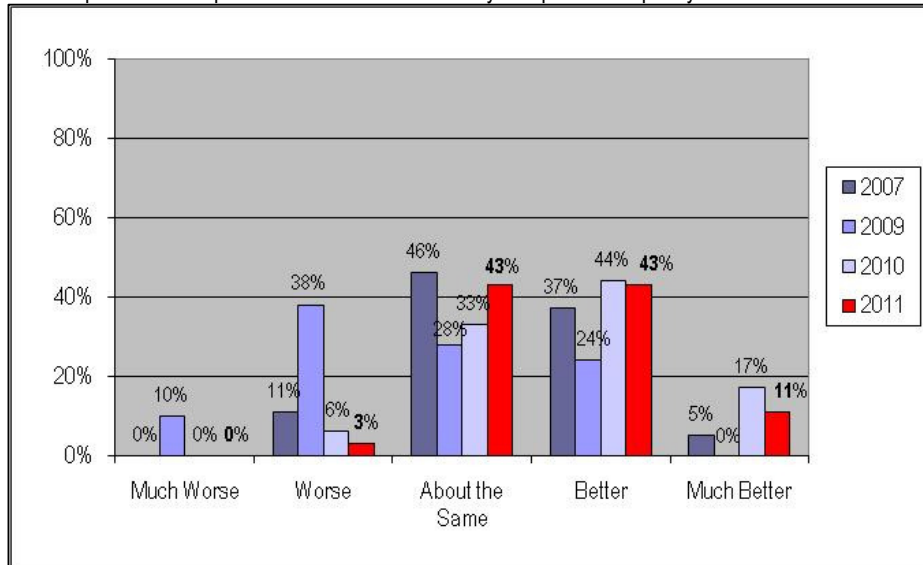


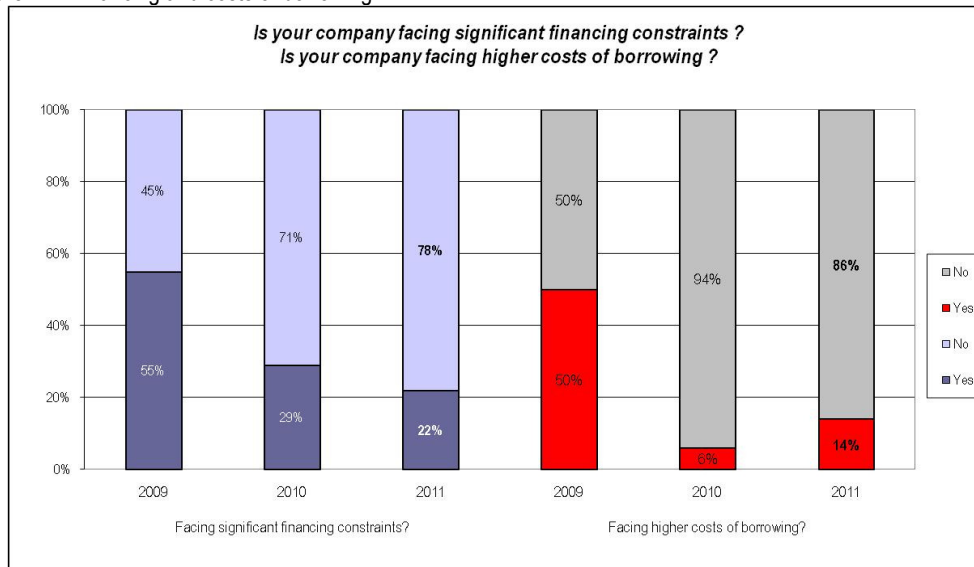
Figure 2.1.2: Expectations for performance of world economy compared with past years



- ◆ Economic outlook is positive in 2011, with more than half the respondents (54%) expecting a better or much better performance of the world economy this year than last year, and none expecting a much worse performance of the world economy compared to last year.
- ◆ A smaller percentage of respondents expect a “much better” economy this year (11%), compared with 2010 (17%).
- ◆ A greater percentage of respondents expect the economic performance to be “about the same” (43%) in 2011 compared with last year (33%)

2.2 Business Climate

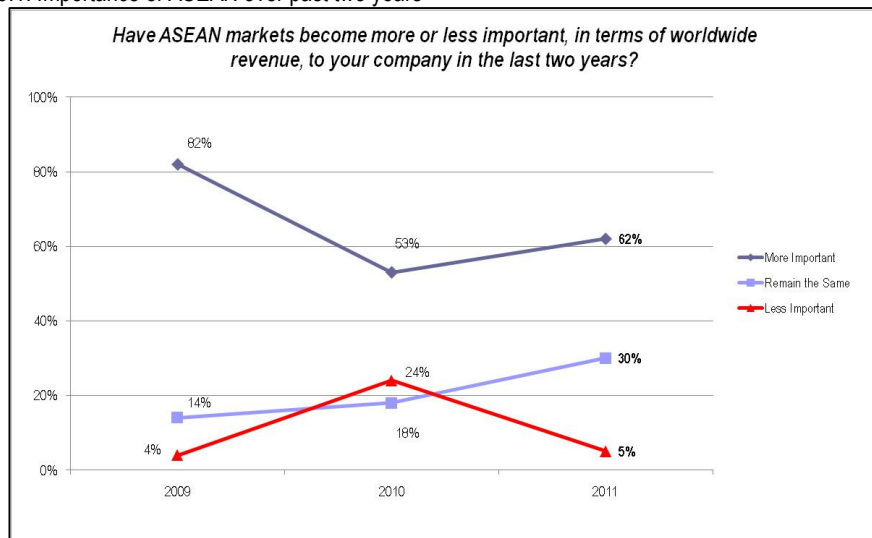
Figure 2.2: Financing and costs of borrowing



- ◆ The percentage of businesses facing significant financing constraints continues to decrease in 2011, reaching a low of 22%, down from 29% in 2010 and 55% in 2009.
- ◆ In contrast, the percentage of businesses facing higher costs of borrowing grew in 2011, reaching 14% this year, compared with 6% in 2010. This figure is still significantly lower than the 2009 figure of 50%.

2.3 Importance of ASEAN Markets in Global Business

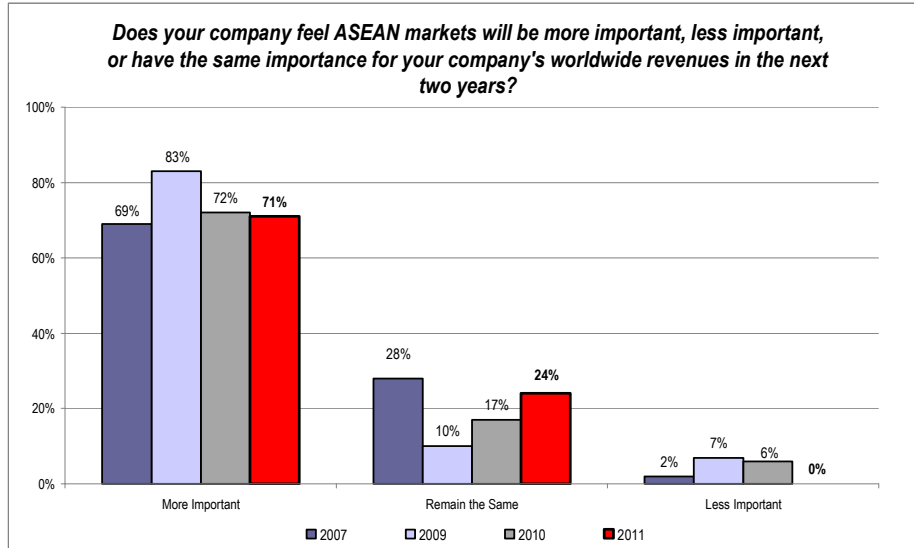
Figure 2.3.1: Importance of ASEAN over past two years



- ◆ ASEAN markets grew in importance compared with 2010, with 62% of respondents stating that ASEAN markets became more important in terms of worldwide revenue to their company in the last two years, whereas in 2010, 53% of respondents said so. The 2011 figure still represents a decrease from 2009, in which 82% believed that ASEAN markets grew in importance over the past two years.
- ◆ Only 5% of respondents believe ASEAN markets have become less important, a significant decrease from last year's figure of 24%.

Importance of ASEAN over the Next Two Years

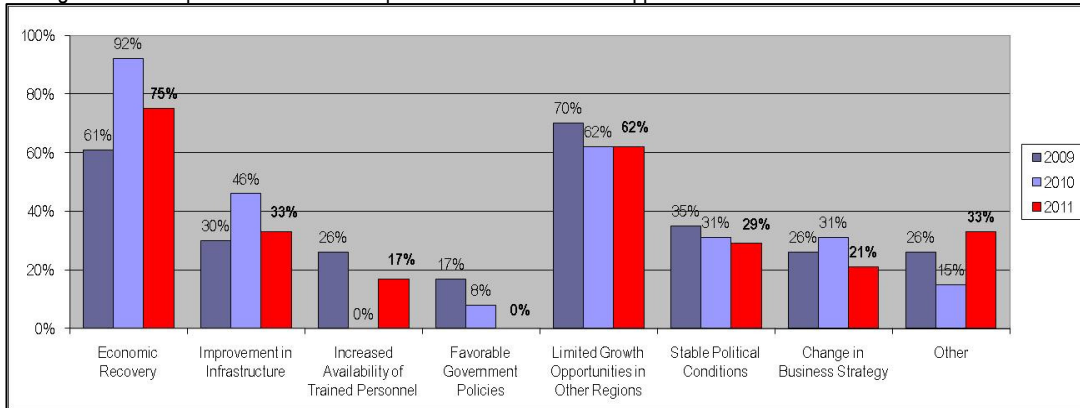
Figure 2.3.2: Importance of ASEAN over next two years



- ◆ Most respondents (71%) believe that ASEAN markets will be more important in the next two years, consistent with 2010's 72% who thought so.
- ◆ No respondents believe that ASEAN markets will be less important in the next two years, compared to 6% who did last year.

Top Three Reasons for Importance of ASEAN

Figure 2.3.3: Top three reasons for importance of ASEAN. See Appendix C for older answers.



- ◆ "Economic recovery" continues to be a top reason for believing that ASEAN markets will be more important than the next two years, though it dropped to 75% from 92% in 2010.
- ◆ "Limited growth opportunities in other regions" is the second most popular answer at 62%, consistent with last year's data.
- ◆ "Increased availability of trained personnel" increased significantly from 0% last year to 17% this year.
- ◆ "Favorable government policies" as well as "improvement in infrastructure" decreased as top reasons for the importance of ASEAN in the next two years.
- ◆ "Other" grew significantly as a top reason. Responses in this category include "population growth" as well as "increasing purchasing power of middle class."

What does your company view as the most significant barrier to conducting business within ASEAN?

This was an open-ended response; selected comments listed.

“Corruption: some companies get away with corrupt and unethical practices which are not tolerated by our company. This puts our business at a disadvantage with those who use corrupt practices”

“Lack of clarity and certainty on constantly changing regulations”

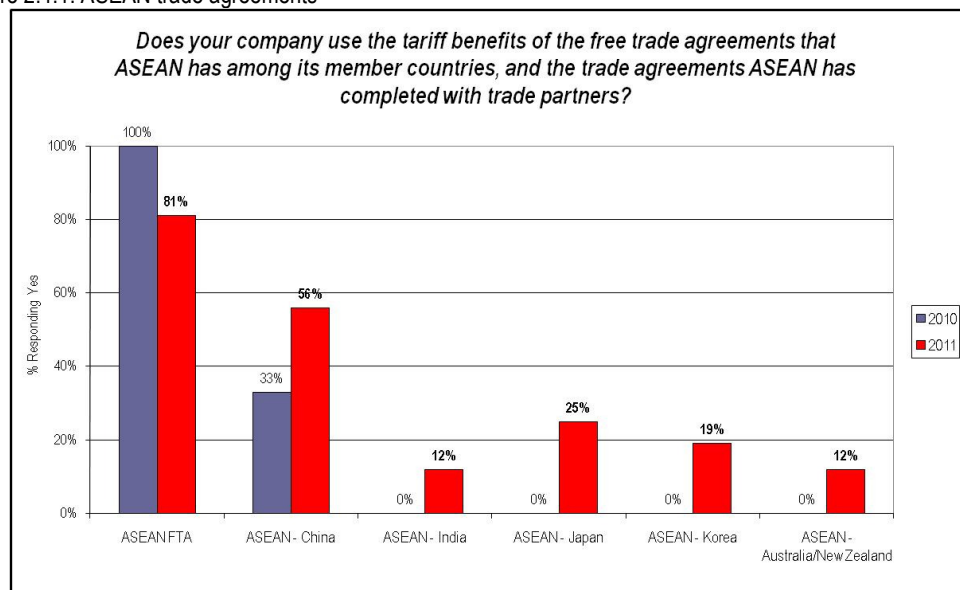
“Governance and corruption”

“Use of standards and tariffs to impede trade and protect domestic companies”

“Large differences in culture, operating systems and norms, and the level of local capacity”

2.4 Effectiveness of ASEAN

Figure 2.4.1: ASEAN trade agreements



- ◆ The ASEAN FTA is the most used trade agreement, with 81% of respondents using its tariff benefits.
- ◆ Though the percentage of businesses using the ASEAN FTA decreased from 2010, from 100% last year to 81% this year, those using all other trade agreements increased from 2010.
- ◆ The usage of the ASEAN-China FTA increased from 33% to 56% this year.

What hinders your business in using these trade agreements?

This was an open-ended response; selected comments listed.

“Consistency of free trade agreement implementation”

“Lack of knowledge, lack of application to specific business and industry and lack of ASEAN-USA agreement”

“We're in the services business and not greatly affected by trade barriers. Investment barriers [and] limitations on foreign ownership are a bigger problem for us”

“Customs at different ports interpret changes differently”

Importance of ASEAN Integration

Figure 2.4.2: Importance of ASEAN integration

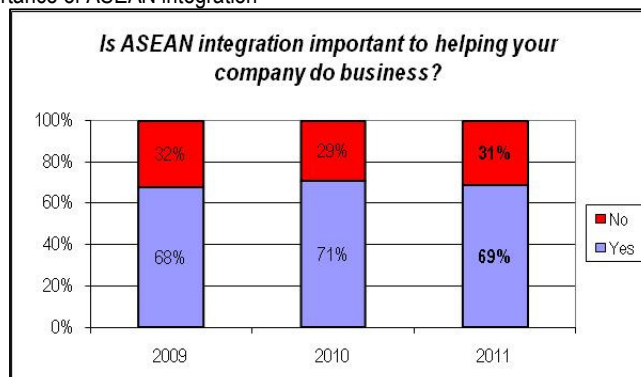
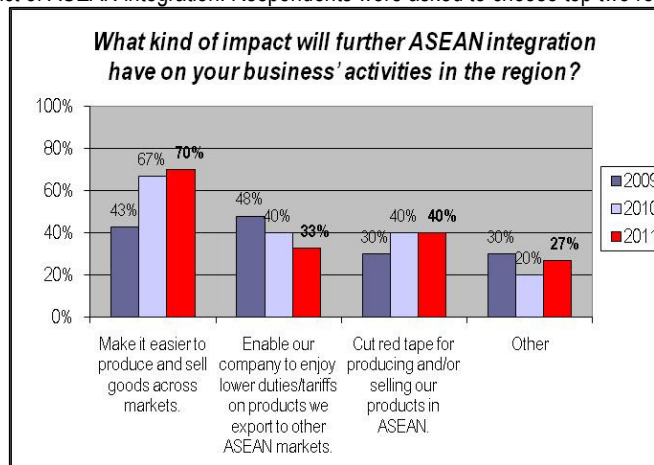


Figure 2.4.3: Impact of ASEAN integration. Respondents were asked to choose top two responses.



- ◆ ASEAN integration continues to be important in 2011, with 69% of respondents believing it to be important to helping their companies do business.
- ◆ Most respondents stated that further ASEAN integration will make it easier to produce and sell goods across markets” (70%).

- ◆ “Cut the red tape for producing and/or selling our products in ASEAN” is the second most popular response, with 40%.

2.5 Business Direction and Movement in ASEAN

Figure 2.5.1: Past ASEAN expansion

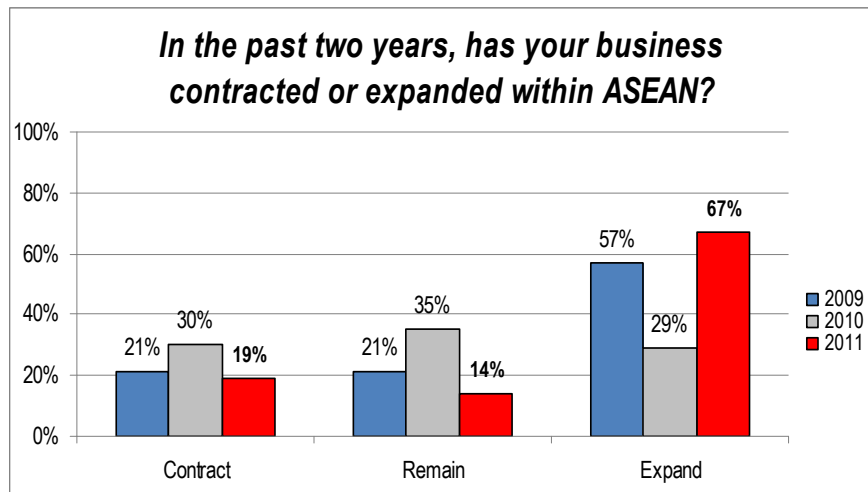
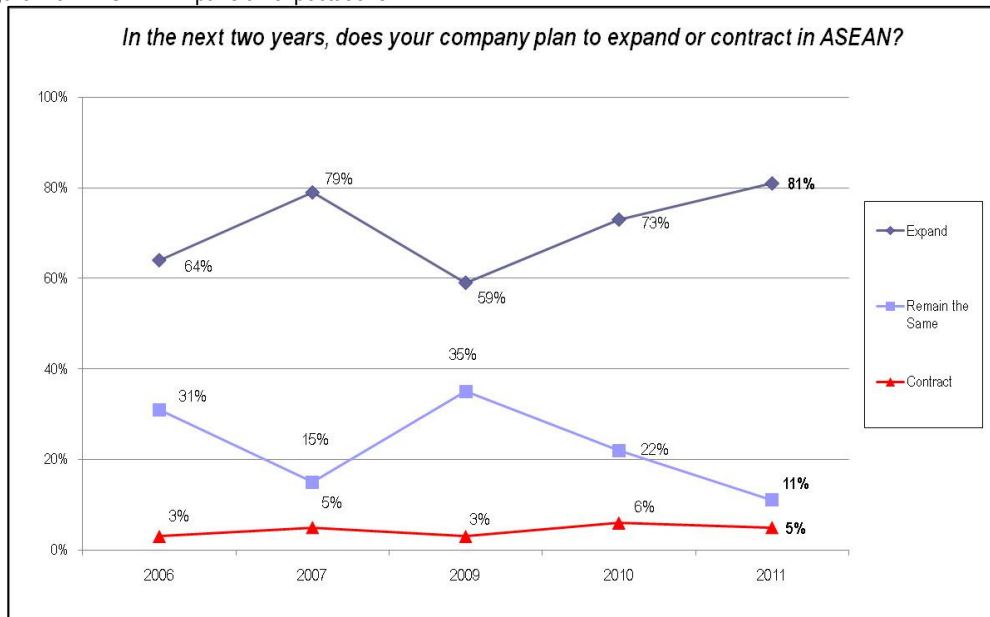


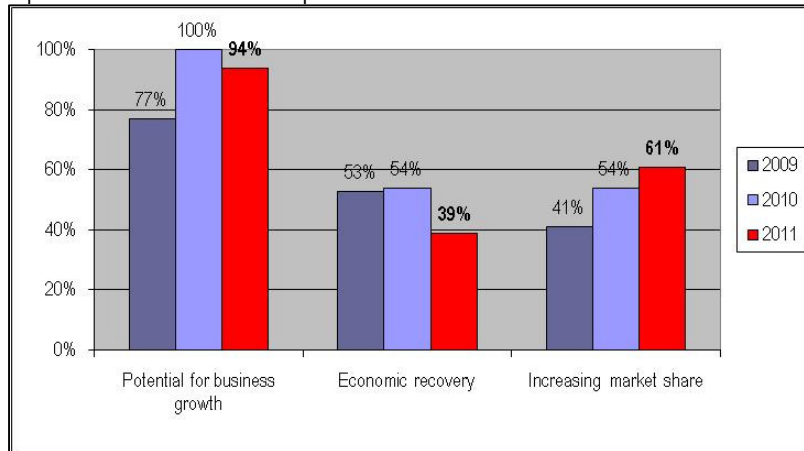
Figure 2.5.2: ASEAN Expansion expectations.



- ◆ During the past two years, 67% of respondents increased or significantly increased their business in ASEAN. This is a significant increase from 2010, in which only 29% had expanded in ASEAN in the past two years. 19% reported having decreased or significantly decreased their business in ASEAN in 2011, compared to 30% in 2010.
- ◆ Most respondents (81%) plan to expand in ASEAN over the next two years, the highest rate recorded so far.
- ◆ Only 5% of respondents plan to contract their companies in ASEAN over the next two years.

Top Three Reasons for ASEAN Expansion

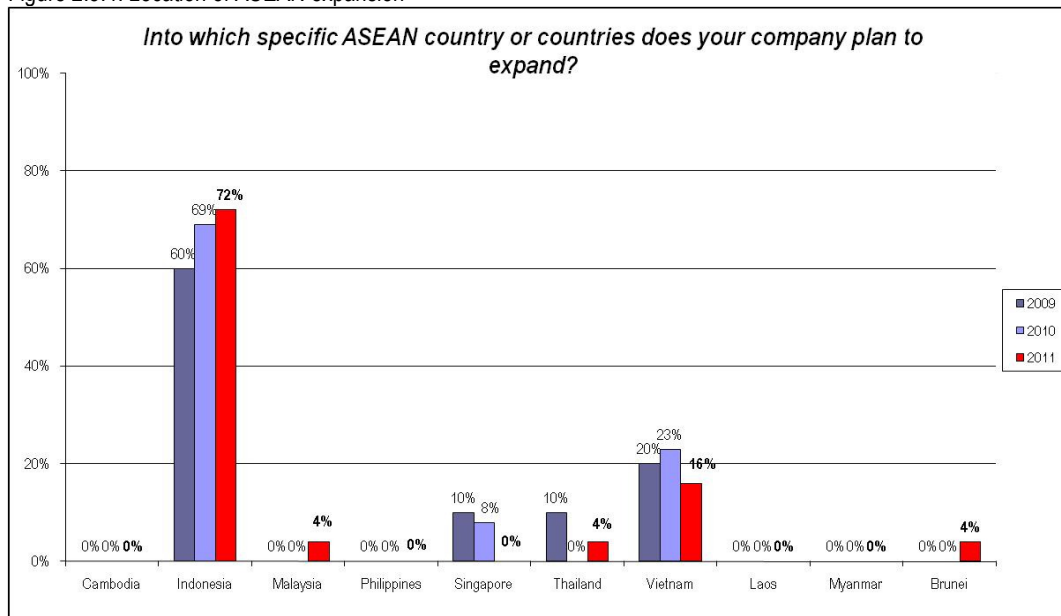
Figure 2.5.3: Top three reasons for ASEAN expansion



- ◆ “Potential for business growth” remains the most popular reason for ASEAN expansion, with most respondents (94%) citing it as one of their top reasons in 2011, though this figure is a slight decline from 100% in 2010.
- ◆ “Economic recovery” decreased slightly as a reason for ASEAN expansion, though it still has 39% of respondents selecting it as one of their top three reasons for expansion in 2011.
- ◆ “Increasing market share” increased as a top reason for ASEAN expansion in 2011 to 61% from 54% in 2010. See Appendix B for more reasons.

Location of ASEAN Expansion

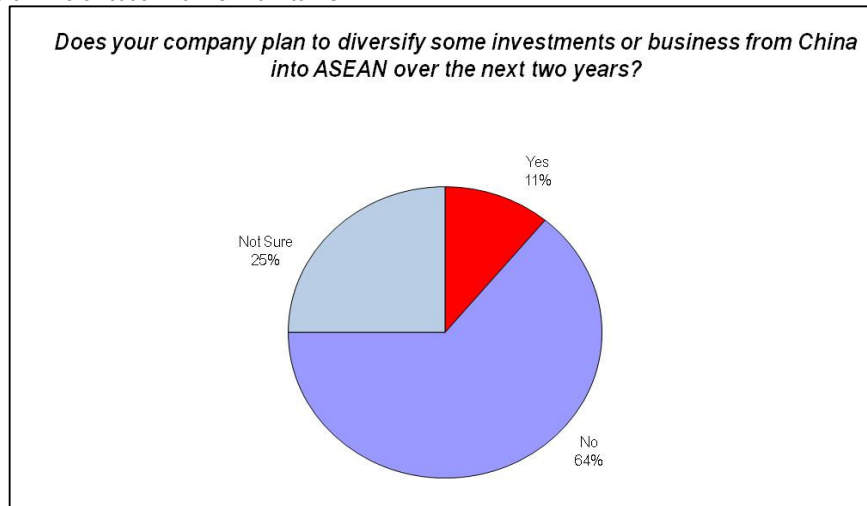
Figure 2.5.4: Location of ASEAN expansion



- ◆ Indonesia is the most popular site for expansion for the third consecutive year at 72%.
- ◆ Vietnam is the second most popular site for ASEAN expansion at 16%.

- ◆ Singapore dropped significantly this year as a site for ASEAN expansion from 8% in 2010 to 0% in 2011.
- ◆ Brunei is selected by 3% of respondents, compared with 0% in the last two years.
- ◆ See Appendix E for reasons behind choice.

Figure 2.5.5: Diversification from China into ASEAN



- ◆ Only 11% of respondents stated that their companies plan to diversify some investments or business from China into ASEAN over the next two years.

2.6 Profit Outlook

Compared to the past year, do you expect your profits in the current and coming years to increase, decrease, or remain the same?

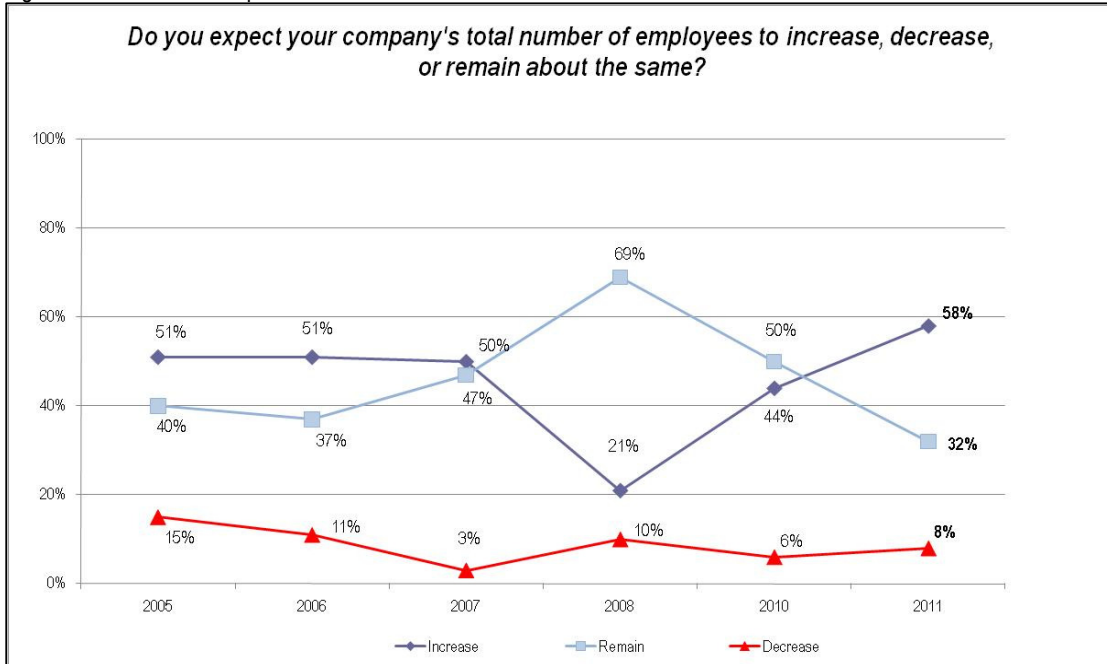
Table 2.6: ASEAN profit outlook

Year of Survey			2006	2007	2008	2009	2010	2011
Profit Expectation	Current Year	Increase	60%	63%	65%	25%	50%	59%
		Remain	24%	26%	25%	39%	28%	27%
		Decrease	14%	9%	10%	36%	11%	11%
	Coming Year	Increase	71%	75%	78%	78%	61%	70%
		Remain	14%	16%	20%	7%	22%	24%
		Decrease	9%	5%	2%	11%	6%	0%

- ◆ Profit outlook remains positive, with the majority of respondents (59%) expecting profits to increase for the current year, and 70% expecting profits to increase in the coming year. This represents an increase from last year, in which 50% of respondents expected profits to increase for the current year, and 61% expected this for the coming year.
- ◆ A lower percentage of respondents this year expect profits to decrease in the coming year (0%), compared to the 2010 data (6%).

2.7 Workforce Expansion

Figure 2.7.1: Workforce expansion



By what percentage will the number of employees increase?

Table 2.7.1: Percentage of employee increase

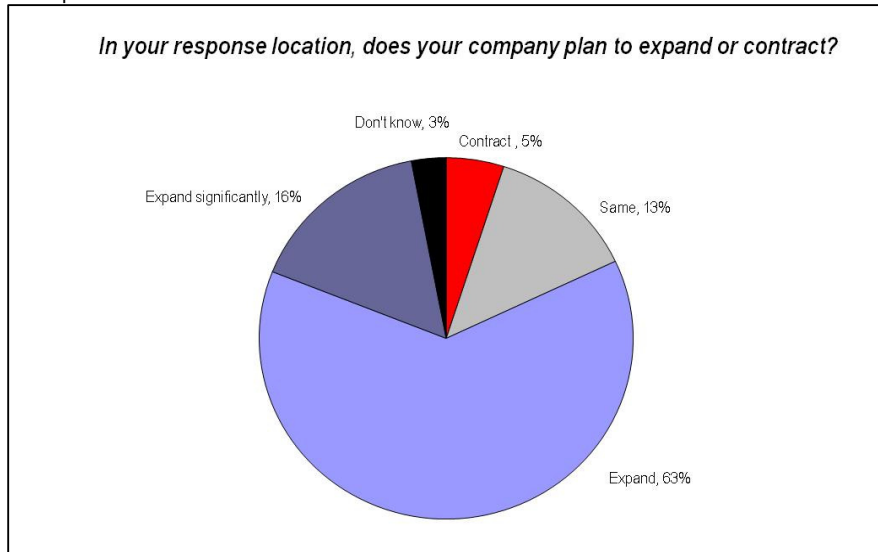
Year of Survey	2005	2006	2007	2009	2010	2011	
Workplace Expansion	0 to less than 5%					5%	
	5 to less than 10%	43%	36%	50%	50%	45%	
	10 to less than 15%					32%	
	15 to less than 20%	48%	54%	33%	17%	75%	
	20 to less than 50%	5%	3%	17%	0%	0%	5%
	>50%	5%	6%	0%	17%	0%	10%

In 2011 for the first time 0-10% was further split into 0-5% and 5-10%, and 10-20% was split into 10-15% and 15-20%.

- ◆ The majority of respondents (58%) expect the number of employees to increase, a significant increase from those who expected it last year (44%). Out of these respondents, 45% expect an increase of 5% to 10%, and 32% expect an increase of 10% to 15%.
- ◆ The percentage of respondents who expect the number of employees to decrease increased to 8% in 2011, from 6% in 2010.
- ◆ Of the respondents who expect the number of employees to decrease (8%), 33% expect a decrease of 0% to 5%, 33% predict a decrease of 5% to 10%, and the last 33% expect a decrease of 15% to 20%.

Future Expansion

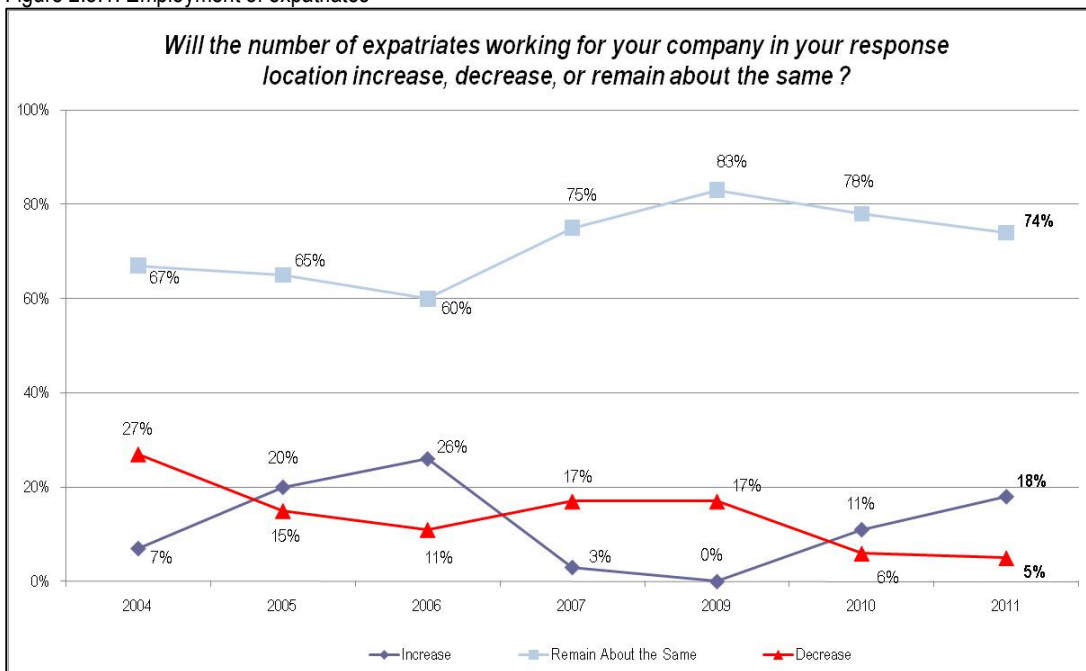
Figure 2.7.2: Expansion or contraction



- ◆ Most (79%) of the companies plan to expand or expand significantly in Indonesia. When asked their top three reasons for expansion, respondents most often chose “potential for business growth” (87%), “increasing market share” (67%), and “economic recovery” (47%).

2.8 Employment of Expatriates

Figure 2.8.1: Employment of expatriates



What are the TOP THREE reasons the number of expatriates working for your company will INCREASE?

Table 2.8.1: Reasons for increased employment of expatriates

Year of Survey	2010	2011
Policy decision by head office	0%	29%
Lack of skilled manpower in the local market	50%	57%
Business expansion	50%	86%
Improved security conditions for expatriates	0%	0%
Other	0%	14%

- ◆ The number of respondents (18%) stating that their company will increase the number of expatriate employees rose in 2011 from the 2010 figure (11%).
- ◆ Most respondents (74%) stated that the number of expatriate employees will remain the same.
- ◆ The top reason for expecting an increase in the number of expatriate employee is “business expansion,” with 86% of respondents citing it as a top three reason. “Lack of skilled manpower in the local market” is another popular reason (57%).
- ◆ The top reasons for expecting a decrease in number of expatriates are “a decision from the Head Office” (100%) and to “reduce costs” (100%). Respondents were asked to identify their top three reasons.

Table 2.8.2: Expatriate satisfaction

Year of Survey	2009	2010	2011
Does your company regularly receive requests from employees based in other locations to work in your response location?			
Yes	14%	24%	19%
No	86%	76%	81%
Are your expatriate employees generally satisfied with their assignments in your response location?			
Yes	78%	94%	94%
No	22%	6%	6%
Do your expatriate employees attempt to extend their time in your response location?			
Yes	70%	81%	69%
No	30%	19%	31%

- ◆ Overall expatriate employee satisfaction remains high at 94%, consistent with the 2010 data.
- ◆ There is a decrease in the percentage of respondents who had expatriate employees attempt to extend their time in Indonesia, from 81% in 2010 to 69% in 2011.
- ◆ Most respondents (81%) stated that their company does not regularly receive requests from employees based in other locations to work in Indonesia.

3. FACTORS IMPACTING BUSINESS IN INDONESIA

Respondents were asked to rate their satisfaction with a series of local factors that could affect their business. The percentage of respondents who are satisfied or extremely satisfied with a given factor can be used to identify factors of strength. Conversely, the percentage of respondents dissatisfied or extremely dissatisfied with a particular factor can be used to identify areas held as concerns.

3.1 Local Business Environment Factors

Major Strengths

(Responded “Satisfied” or “Extremely Satisfied” at a considerable rate in the 2011 survey)

Table 3.1.1: Time Comparison of satisfaction with major strengths.

Factors	2004	2005	2006	2007	2009	2010	2011
Availability of Low Cost Labor			58%		60%	65%	68%
Office Lease Cost							49%
Housing Cost							57%

(See Appendix, Table A -1 for responses on all listed factors). *Empty boxes indicate areas that were neither strengths nor concerns for the year indicated. Responses bolded represent that year’s response with the highest rate of satisfaction.

- ◆ Indonesia gained a few more strengths in the 2011 survey, compared to only having “availability of low cost labor” as a major strength in the 2010 survey.
- ◆ “Office lease cost” received 49% satisfaction and “housing cost” received 57% satisfaction.

Major Concerns

(Responded “Dissatisfied” or “Extremely Dissatisfied” at a considerable rate)

Table 3.1.2: Time Comparison of satisfaction with major concerns

Factors	2004	2005	2006	2007	2009	2010	2011
Corruption	94%	95%	83%	86%	78%	82%	89%
Local Protectionism			44%	59%	59%	41%	61%
Infrastructure	65%	76%	50%	63%	86%	65%	70%
New business incentives offered by government	79%	88%	44%	55%	53%	59%	54%
Laws and regulations	77%	75%	69%	80%	74%	83%	68%
Availability of trained personnel				40%			49%

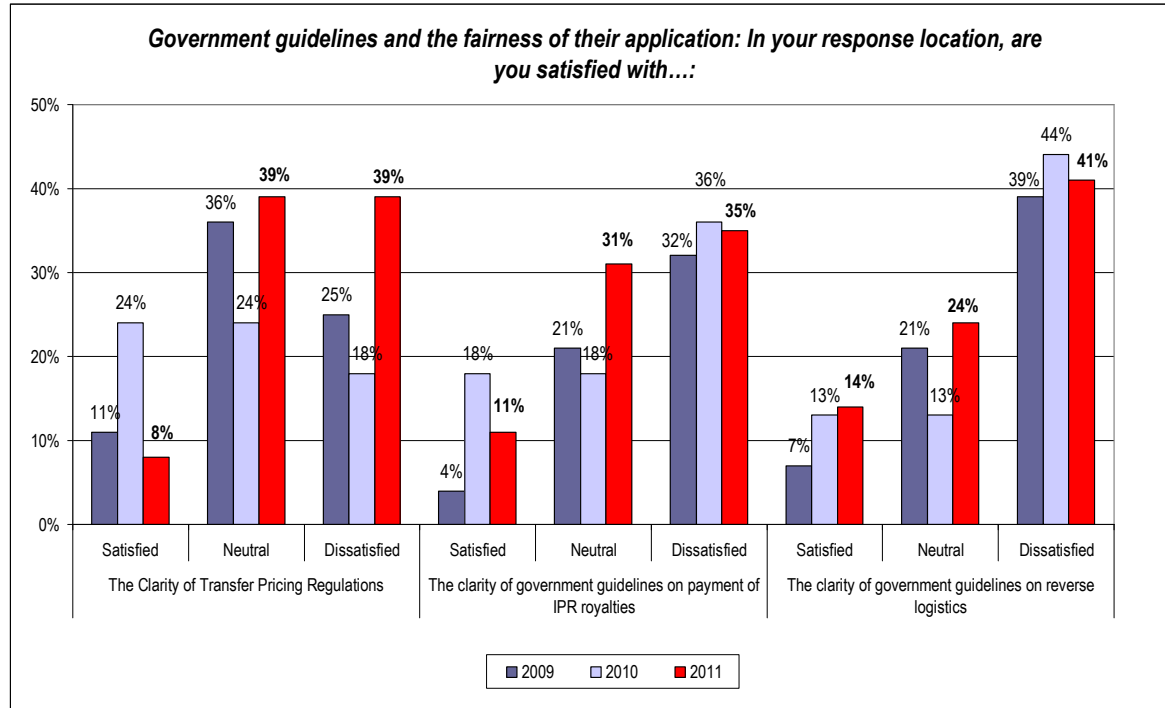
(See Appendix, Table A-1 for responses on all listed factors). *Empty boxes indicate areas that are neither strengths nor concerns. Responses bolded represent that year’s response with the highest rate of dissatisfaction.

- ◆ There is high dissatisfaction with corruption (89%), infrastructure (70%) and laws and regulations (68%) in 2011.
- ◆ Dissatisfaction grew significantly in “local protectionism” (from 41% in 2010 to 61% in 2011).
- ◆ Dissatisfaction decreased significantly in “laws and regulations” (from 83% in 2010 to 68% in 2011).
- ◆ Two major concerns in 2010 (“ease of moving products through customs,” “tax structure”) have ceased being major concerns in 2011. “Ease of moving products through customs” decreased in dissatisfaction from 71% in 2010 to 39% in 2011. “Tax structure” decreased from 53% in 2010 to 31% dissatisfaction in 2011.

3.2 Other Local Business Factors

Government Guidelines and the Fairness of their Application

Figure 3.2.1: Government guidelines



- ◆ Overall, satisfaction rates remain low while dissatisfaction remains high for government guidelines in Indonesia.
- ◆ There is less satisfaction with “the clarity of transfer pricing regulations,” which dropped from 24% satisfaction in 2010 to 8% satisfaction this current year. The percentage of respondents dissatisfied with this government guideline more than doubled from 18% to 39% this year.
- ◆ There is also less satisfaction towards “the clarity of government guidelines on payment of IPR royalties.” The percentage of satisfied respondents dropped from 18% last year to 11% this year, and the percentage that selected “neutral” increased from 18% to 31%.
- ◆ For “the clarity of government guidelines on reverse logistics,” the percentages are fairly consistent with last year, with the largest portion of respondents selecting “dissatisfied” (41%), and the smallest portion choosing “satisfied” (14%).

Government Institutions

- ◆ Regarding local government institutions, respondents are most satisfied with the “ministry of finance” (44%).
- ◆ “Customs” received the highest dissatisfaction ratings (41%).
- ◆ See Appendix A-2 for more details.

3.3 Economic Conditions

Over this year, 2011, what do you think will happen in your response location regarding...?

Table 3.3: Expectations about local factors.

	Total Appreciate /Increase	Appreciate/ increase Significantly	Appreciate/ increase	Neutral	Depreciate/ decrease	Depreciate /decrease Significantly	Total Depreciate /Decrease
Local currency vs. US dollar	84%	3%	81%	11%	5%	0%	5%
Housing cost	78%	8%	70%	22%	0%	0%	0%
Living cost	95%	11%	84%	5%	0%	0%	0%
Interest rate	52%	3%	49%	38%	5%	0%	5%
Overall economic growth	91%	5%	86%	3%	5%	0%	5%

- ◆ Outlook among respondents is positive overall, with most (91%) believing that there will be an expansion in economic growth.
- ◆ Nearly all respondents (95%) believe that the living cost will increase, and most (78%) believe that the housing cost will also increase.
- ◆ No respondents predict a decrease in the living cost or the housing cost.
- ◆ Most respondents (84%) expect the local currency to appreciate.

*The U.S. Taxation, International Schools, and Corporate Social Responsibility sections were optional questions on the 2010 and 2011 surveys, and thus have a significantly smaller sample size. Of the 38 respondents that took the 2011 survey, 15 answered the optional questions (39%). Results may have been affected by this change.

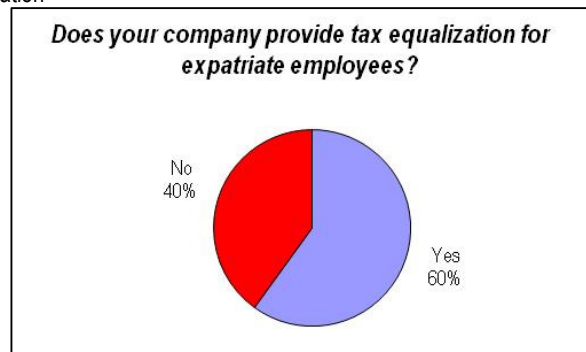
3.4 Taxation

Table 3.4: U.S taxation

Year of Survey	2009	2010	2011
<i>Have you experienced a significant increase in the amount you must pay toward U.S. income tax on your foreign earned income since the recent legislative changes in 2006?</i>			
Yes	24%	0%	33%
No	76%	100%	67%

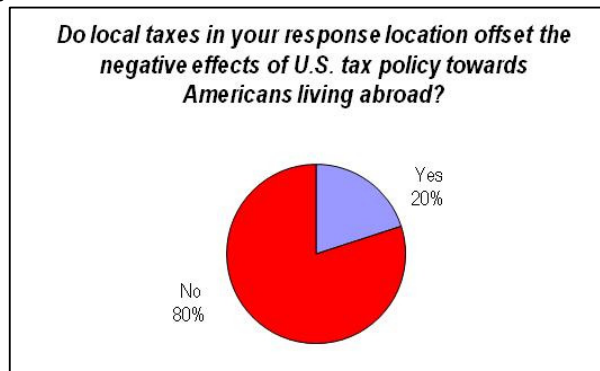
- ◆ One third of respondents stated that they have experienced a significant increase in their U.S. income tax on foreign earned income. This represents a difference from 2010, in which no respondents experienced this increase, but is comparable to 2009, when 24% experienced the increase in taxation.

Figure 3.4.1: Tax equalization



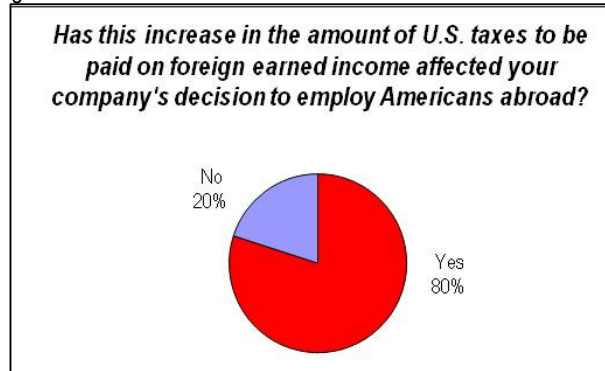
- ◆ A majority of the respondents' companies (60%) provide tax equalization for their expatriate employees.

Figure 3.4.2: Local taxes



- ◆ Most of the respondents (80%) cited that local taxes in Indonesia do not offset the negative effects of U.S. tax policy towards Americans living abroad.

Figure 3.4.3: Tax on foreign earned income



- ◆ Most respondents (80%) believe that this increase in the amount of U.S. taxes on foreign earned income affected their companies' decision to employ Americans abroad.

Selected Comments on Taxation

“[It's] too expensive and unattractive to hire American employees”

“[I'm] under a tax equalization policy, so has not affected me personally”

“Assessments from back years [are] very heavy and cause a reduction in life style”

3.5 International Schools

Table 3.5: International schools

Year of survey	2009	2010	2011
Will the ability to find adequate space at international educational institutions in your response location be a significant problem in the next 1-3 years?			
Yes	17%	60%	40%
No	83%	40%	60%
Do you feel that the government of your response location is actively pursuing solutions to correct the space constraint at international educational institutions?			
Yes	20%	33%	0%
No	80%	67%	100%
Will the lack of adequate space at international educational institutions at your response location affect your company's decision to hire more local employees over foreign employees?			
Yes	20%	0%	17%
No	80%	100%	83%

- ◆ The ability to find adequate space at international educational institutions is not a significant problem for the majority of respondents this year (60%), compared with 40% in 2010.

- ◆ No respondents felt that the Indonesian government is actively pursuing solutions to correct this space constraint, compared to 33% in 2010.
- ◆ Most respondents (83%) feel that the lack of adequate space at international educational institutions will not affect the company's decision to hire more local employees over foreign employees.

3.6 Corporate Social Responsibility

Table 3.6: Corporate Social Responsibility

Year of Survey	2009	2010	2011
Is your company involved in CSR efforts?			
Yes	72%	80%	93%
No	28%	20%	7%
Do you expect your company's CSR efforts to increase or decrease in 2011 compared with 2010?			
Increase	50%	75%	50%
Remain the Same	40%	25%	50%
Decrease	10%	0%	0%
How frequent are your company's CSR efforts?			
Ongoing	43%	50%	29%
Monthly	5%	0%	0%
Multiple times per year	33%	50%	57%
Yearly	19%	0%	14%
What form does your company's CSR efforts take? (check all that apply)			
Fundraising	38%	25%	54%
Employee volunteering	81%	75%	46%
Cash donations	67%	75%	69%

- ◆ Nearly all respondents (93%) stated that their company is involved in CSR efforts. This is an increase from the 80% who chose this response in 2010. Half (50%) expect their company's CSR efforts to increase in 2011, a decrease compared with 2010 (75%), and none expect a decrease in efforts, similar to last year.
- ◆ 57% of respondents stated that the frequency of their company's CSR efforts is "multiple times a year", the most popular response.
- ◆ Cash donations are the most popular form of CSR effort (69%), followed by fundraising (54%). Fundraising increased as a form of CSR effort, from 25% in 2010 to 54% in 2011. Employee volunteering decreased from 75% of respondents selecting it in 2011 to 46% this year.

4. CONCLUSION

Outlook

Respondents from Indonesia have an overall positive outlook towards the performance of the world economy in 2011. More than half expect the economy to perform better or much better, while only 3% predict a worse performance. Expectations are even higher for the performance of the domestic economy. 91% of respondents predict that the Indonesian economy will expand over the next year. Most businesses plan to expand over the next year, and more than half are going to expand their overall workforce. Nearly a fifth also plan to increase the number of expatriate employees.

ASEAN

ASEAN markets remain important for respondents in Indonesia because of the economic recovery and limited growth opportunities in other regions. 67% of companies expanded in ASEAN over the past two years, and 81% plan to do so in the next two years because of the potential for business growth in the region. Most of this expansion will take place in Indonesia. However, respondents face many barriers when conducting business within ASEAN. They cite corruption, lack of clarity on regulations, differences in culture, and lack of consistency on implementation as among the issues which hinder their business. These concerns are reflected in the decrease in percentage of companies who use the ASEAN free trade agreement, from all in 2010 to 81% this current year.

Location Specific

Indonesia's strengths lie within its low cost business environment. Respondents enjoy low cost labor as well as low housing and office lease costs. However, there are also major concerns with corruption, laws and regulations, and infrastructure. The largest portion of respondents is dissatisfied with government guidelines and the fairness of their application. Economic growth is projected to be strong, but with this increase in growth also comes higher living and housing costs. Nearly all respondents believe than over 2011, the cost of living in Indonesia will increase, possibly removing one of Indonesia's major strengths. Nonetheless, most companies still plan on expansion in the location.

APPENDICES

(A) Local Factors Impacting Business

How Satisfied Are You With These Local Factors?

Table A: Satisfaction with factors

	Total Satisfied	Extremely Satisfied	Satisfied	Neutral	Dissatisfied	Extremely Dissatisfied	Total Dissatisfied
Infrastructure	14%	3%	11%	16%	43%	27%	70%
Availability of raw materials	29%	3%	26%	34%	11%	6%	17%
Availability of low cost labor	68%	14%	54%	22%	3%	0%	3%
Availability of trained personnel	38%	8%	30%	14%	41%	8%	49%
Office lease costs	49%	3%	46%	32%	11%	0%	11%
Housing costs	57%	0%	57%	24%	14%	0%	14%
Laws & regulations	8%	0%	8%	19%	49%	19%	68%
Corruption	8%	0%	8%	19%	43%	46%	89%
Local protectionism	8%	0%	8%	22%	47%	14%	61%
Tax structure	31%	0%	31%	36%	25%	6%	31%
Personal security	32%	5%	27%	46%	19%	3%	22%
Stable government and political system	44%	14%	30%	38%	19%	0%	19%
New business incentives by government	17%	3%	14%	23%	43%	11%	54%
Sentiment towards the U.S.	41%	14%	27%	51%	8%	0%	8%
Free movement of goods within the region	20%	3%	17%	42%	22%	6%	28%
Ease of moving products through customs	14%	3%	11%	33%	28%	11%	39%

How Satisfied are You with Local Government Institutions?

Table A-2: Satisfaction with local government institutions

	Total Satisfied	Extremely Satisfied	Satisfied	Neutral	Dissatisfied	Extremely Dissatisfied	Total Dissatisfied
Agency to promote/develop investment	34%	3%	31%	39%	17%	3%	20%
Customs	17%	3%	14%	35%	27%	14%	41%
Immigration	27%	5%	22%	51%	22%	0%	22%
Taxation/Revenue	22%	3%	19%	41%	24%	14%	38%
Central Bank	41%	8%	33%	44%	6%	0%	6%
Ministry of Finance	44%	8%	36%	36%	17%	3%	20%

(B) Reasons for Business Expansion in ASEAN over the Next Two Years

Table B: Top 3 Reasons for ASEAN Expansion

Year of Survey	2006	2007	2008	2010	2011
Reasons for Expansion					
Economic recovery	83%	82%	53%	54%	39%
Potential for business growth	83%	82%	77%	100%	94%
Increasing market share	78%	60%	41%	54%	61%
Reasonable production cost	13%	22%	35%	15%	26%
Diversity of customer base	22%	32%	18%	23%	32%
Lack of growth in current market/countries	13%	14%	6%	15%	10%
Availability of trained personnel/efficient manpower	17%	14%	18%	15%	6%
Availability of raw materials				0%	3%
High level of personal security				0%	0%
Low level of corruption				0%	0%
Adequate laws and regulations to protect business				0%	0%
Adequate laws and regulations to encourage foreign investment				0%	0%
Stable government and political system				8%	16%
Low level of local protectionism				0%	0%
Weak competition in market/countries				8%	3%
Other				8%	16%

Empty boxes indicate that no comparative data is available for those years.

(C) Importance of ASEAN Markets over the Next Two Years

Table C: Top Reasons for ASEAN Importance over Next Two Years

Year of Survey	2006	2007	2009	2010	2011
Reason					
Economic recovery	84%	76%	61%	92%	75%
Limited growth opportunities in other regions	56%	47%	79%	62%	62%
Improvement in infrastructure	44%	42%	30%	46%	33%
Increased availability of trained personnel	12%	13%	26%	0%	17%
Favorable government policies	32%	24%	17%	8%	0%
Stable political conditions	20%	33%	35%	31%	29%
Change in business strategy			26%	31%	21%
Other					33%

Empty boxes indicate that no comparative data is available for those years.

(D) Sample Profile

Table D: Workforce and Turnover

Year of Survey		2004	2005	2006	2007	2009	2010	2011
Scope of responsibility	One country	75%	78%	81%	67%	90%	88%	86%
	Multiple countries	25%	22%	19%	33%	10%	12%	14%
Size of Current Workforce in Region	Below 50 employees	10%	10%	11%	30%	29%	25%	16%
	50 to <500 employees	52%	51%	58%	40%	50%	62%	54%
	500 to <1000 employees	10%	15%	11%	8%	11%	12%	14%
	1000 to <1500 employees	6%	5%	11%	5%	7%	0%	3%
	1500 to <2000 employees	3%	7%	0%	2%	4%	0%	5%
	2000 employees or above	19%	12%	8%	16%	0%	0%	8%
Company's Past Year Turnover in Indonesia (USD)	Below \$1 million	3%	5%	3%	13%	11%	0%	3%
	\$1 to <\$50 million	53%	46%	6%	44%	44%	62%	40%
	\$50 to <\$100 million	3%	13%	14%	19%	19%	12%	20%
	\$100 to <\$500 million	20%	23%	11%	15%	19%	12%	17%
	\$500 to <\$1 billion	10%	3%	8%	5%	0%	6%	3%
	\$1 billion or above	10%	10%	0%	3%	4%	0%	6%
Past Year's Turnover As Percentage of Company's Global Turnover	Below 5%					62%	87%	73%
	5 to <25% (Before 2006: 5 to <20%)					15%	13%	18%
	25 to <50% (Before 2006: 20- <50%)					4%	0%	3%
	50 to <75% (Before 2006: 50% or above)					4%	0%	0%
	75 to <100%					0%	0%	3%
	100%					15%	0%	3%

Empty boxes indicate that no comparative data is available for those years.

		2009	2010	2011
Past Year's Turnover as Percentage of Company's Total ASEAN Turnover	Below 5%	4%	20%	19%
	5 to less than 25%	46%	60%	48%
	25 to less than 50%	27%	13%	10%
	50 to less than 75%	0%	0%	10%
	75 to less than 100%	8%	7%	6%
	100%	15%		6%
ASEAN Country That Holds the Next Largest Turnover for Company	Vietnam	8%	7%	3%
	Cambodia	0%	0%	0%
	Indonesia	19%	13%	16%
	Laos			0%
	Malaysia	0%	20%	29%
	Thailand	27%	27%	32%
	Philippines	15%	13%	3%
	Singapore	31%	20%	16%

Primary Activity		2009	2010	2011
Services	Accounting	7%	0%	0%
	Architecture and Engineering Services	3%	0%	3%
	Banking	0%	0%	0%
	Consulting	10%	17%	5%
	Education	0%	0%	0%
	Healthcare	0%	0%	0%
	HR Services	0%	0%	3%
	Insurance brokers	0%	0%	0%
	Legal	3%	0%	0%
	Marketing & Communications Services	3%	0%	3%
	Other Financial Services	3%	0%	0%
	Software, IT, Telecommunications Services	0%	6%	3%
	Transportation & Logistics	21%	0%	5%
	Wholesale & Retail	0%	6%	0%
	Business Process Outsourcing/ Shares Services		0%	0%
	Other	10%	6%	8%
	Total Services	60%	35%	30%
Manufacturing	Consumer Goods	14%	6%	8%
	Electronics	0%	0%	0%
	Food & Food Products	0%	0%	5%
	Oil & Petrochemical	0%	0%	16%
	Pharmaceuticals/Medical	0%	11%	5%
	Machinery & Equipment	3%	6%	3%
	Other	7%	6%	3%
		Total Manufacturing	24%	29%
Other		14%	39%	30%

E) Reasons behind the choice of ASEAN country for business expansion

Table E: ASEAN Expansion

Year of Survey	2009	2010	2011
Reasonable production costs	52%	15%	32%
Availability of raw materials	5%	0%	4%
Availability of trained personnel/efficient manpower	33%	15%	16%
Increasing market share	52%	69%	60%
Diversification of customer base	29%	54%	20%
High level of personal security	5%	0%	0%
Low level of corruption	5%	8%	0%
Adequate laws and regulations to protect business	5%	8%	4%
Adequate laws and regulations to encourage foreign investment	14%	0%	4%
Stable government and political system	38%	38%	24%
Low level of local protectionism	0%	8%	8%
Weak competition in the market/country	10%	8%	8%
Other	10%	38%	24%