Multinationals Hasten to Invest in Indonesia

I

A branch of Lotte Mart, a South Korean retailer, in Jakarta, Indonesia, a nation that has had an increase in consumer spending.CreditCreditAndri Tambunan for The International Herald Tribune

By Joe Cochrane, April 23, 2013

BEKASI, Indonesia — When Marcos A. Purty arrived here in 2011 as the chief of General Motors' Indonesian operations, he found a mothballed auto plant.

Today, that plant is humming. About 700 people work in the plant, 16 miles east of Jakarta, compared with about 30 just 18 months ago. And next month, G.M. will start delivering its first Indonesian-built vehicle in years, the Chevrolet Spin.

Auto sales are surging in Indonesia — up 17.8 percent in the first quarter from a year earlier — rewarding G.M. for the $150 million it recently invested in the country.

Other big multinational companies are racing to invest in factories and other operations to cash in on rising consumer demand in Indonesia, Southeast Asia's biggest economy and most populous nation, with an estimated 251 million people.

While China and India have far larger economies, investment has slowed or declined. China said last week that foreign direct investment had risen an anemic 1.44 percent in the first quarter, to $29.9 billion. In India, the figure fell 6.3 percent to $3.95 billion in the first two months of the year, the most recent data available, according to India's Department of Industrial Policy and Promotion.

L'Oréal opened its biggest factory in the world in West Java, Indonesia, last November.CreditMast Irham/European Pressphoto Agency

Image

L'Oréal opened its biggest factory in the world in West Java, Indonesia, last November.CreditMast Irham/European Pressphoto Agency

Despite investors’ concerns about an unpredictable regulatory environment, a high level of corruption, inadequate infrastructure and rising labor costs, the money is gushing into Indonesia. The government reported Monday that foreign direct investment rose 27 percent in the first quarter to a record 65.5 trillion rupiah, or nearly $7 billion.

Indonesia has been on a roll since it emerged virtually untouched from the 2008 financial crisis. In 2009, it joined the Group of 20 large economies. It won its first investment-grade credit ratings in more than a decade in late 2011 and early 2012, and its gross domestic product has expanded at a steady rate of more than 6 percent for the last three years.

While overseas capital has long flowed into the resource-rich country’s mining, oil and natural gas sectors, many of today’s new foreign investors are focusing on the Indonesian consumer.

With its large population and a young labor force, Indonesia is in the midst of a consumer spending boom that analysts say could continue for years. Last month, the Boston Consulting Group projected that middle-class and affluent consumers in Indonesia would double to 141 million by 2020 — more than the entire population of Thailand.

While Asian conglomerates from Japan, Singapore and South Korea remain the top foreign investors, American and European companies are rushing in like never before. For example, in November the cosmetics giant L'Oréal opened its biggest factory in the world in West Java Province.

A decade ago, the last of Subway's 10 franchised restaurants in Indonesia closed, but now the group is returning, said Stefan Grbovac, an area development manager for Subway in Singapore. He declined to provide details on local franchise partners or future store openings but he said the decision to come back to the country had been easy.

"Just look at this country — all of our competitors are here," Mr. Grbovac said, including American franchises like Burger King, KFC and McDonald's. "We're definitely coming."

Marcos A. Purty, the chief of General Motors Indonesia, which has invested $150 million to reconstruct and expand a factory complex in Bekasi.CreditAndri Tambunan for The International Herald Tribune

As for G.M., it sold only 5,600 imported Chevrolets in Indonesia last year, accounting for 0.5 percent of the market. But G.M., the largest American carmaker, sees huge opportunities in reconstructing and expanding the 1.2 million-square-foot factory complex in Bekasi, that was shut in 2006.

The investment equals “a huge vote of confidence, not only in Indonesia but the structure of the country, the economic growth in the country,” Mr. Purty said. “We just don’t throw money around. We’ve had some pretty traumatic experiences in our life.”

Still, the challenges for foreign investors trying to do business in Indonesia are formidable. It can take 80 days to get a business license. In a global survey of the ease of doing business compiled by the World Bank, Indonesia ranked 128 out of 185 economies this year, a drop of 13 places from 2010. Transparency International ranked Indonesia 118 out of 176 countries in its most recent corruption perception index.

“Indonesia is punching below its weight as a big country,” said Andrew White, the managing director at the American Chamber of Commerce in Indonesia. “Indonesia is growing by 6 percent, but it should be growing by 10 percent.”

In an effort to reduce red tape, the Indonesian Investment Coordinating Board is cutting by half the number of documents foreign companies need to apply for a business license. It has installed online and real-time tracking of applications to further attract global brand names. One such company is Apple, which was granted a business license for manufacturing or retail even though it has yet to decide whether to invest in Indonesia, said M. Chatib Basri, whose job as board chairman is to attract foreign investment.

Mr. Basri said his pitch to foreign chief executives has been pretty straightforward, though hardly glowing: Asia in general, and Indonesia in particular, look far better than most regions right now.

“Indonesia is the least-unattractive country in the world,” Mr. Basri said. “Even though they have to deal with the problems of bureaucracy and infrastructure, the returns are higher than if you invest in Europe and the U.S. now.”