

INDONESIA'S NEW CAPITAL CITY IN EAST KALIMANTAN: OPPORTUNITIES AND CHALLENGES FOR MALAYSIAN COMPANY

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President Joko Widodo announced the East Kalimantan Province to be new Indonesia's capital city. The city is located between Penajam Paser Utara district and Kutai Kartanegara district. The new capital city is placed at a strategic location, located in between two largest cities in East Kalimantan, namely Balikpapan and Samarinda. The city will be built on 40,000 hectares of land in Bukit Soeharto and the rest (140,000 hectares) will remain as protected rainforests.



According to Public Works Minister, Basuki Hadimuljono, the new capital design will be completed by end of the year while construction work will be started in 2020. Estimated three (3) to four (4) years needed for major infrastructure works such as road, water supply, dam and power supply. Following by the construction of government administrative offices expected to start in 2023, commencement in 2024 where the President Joko Widodo ends his five years term in new office. The relocation cost of new capital is approximately 466 trillion rupiahs (USD 32.7 billion), however the Indonesia government committed to fund 19% of the entire relocation cost. The rest of the cost will be funded by state-owned enterprises, private sector, or through public-private partnership (PPP).

Opportunities!

Bukit Soeharto is a desolated land with few local traditional cuisines to serve the travellers between Balikpapan and Samarinda. It opens great opportunity for Malaysian property developers, construction firms, architectural and engineering firms, construction material suppliers, construction machine suppliers as there will be many infrastructure projects and housing projects awarded between 2020 to 2024.

Challenges?

The establishment of a PT PMA is regulated by Law No. 40/2007 related to Limited Liability Companies (Company Law) which could be owned by the foreigners. Such company can be either 100 per cent foreign-owned or partially foreign-owned. The *Negative Investment List* issued by the Indonesia Investment Coordinating Board (BKPM) identified specific sectors to be opened for foreign investment. It is greatly relied on the foreign investors' own initiative to seek for local authorities' assistance to access the information.

Regular amendment of regulations made foreign investors facing difficulties in setting up new business in Indonesia. The author's own experience to deal with notary, lawyer and business consultant are meaningless due to the fact that none of them aware of the latest information on the amendment of regulations. Therefore, a good business consultant in Indonesia is a must to avoid unnecessary repetitive job while applying for permits.

Indonesia's government gradually reduce bribery and collusion by moving many business applications processes online. However, not all applications can be done via online submission. There are certain applications should go to traditional manual submission where foreigners should engage a prominent business consultant to handle it, especially comes to dealing with submitting officers.

In January 2018, famous Malaysian bone-setting specialist and his team were arrested by Indonesia Immigration Department after they were accused of abusing their visas. It understood that they've violated the laws by providing treatment to the locals without a work permit. Therefore it is notable that foreigners who stayed and worked in Indonesia must apply for a work permit (KITAS) before start work.

In Indonesia, English speaking young citizen could be found in Jakarta city but not in other cities. Local language- Bahasa Indonesia is a must if you intended to communicate with local people. Bahasa Indonesia and Bahasa Melayu are different for example, "when" in Bahasa Indonesia is "kapan" but Bahasa Melayu is "bila".

The unique culture in Indonesia is local people will always response with "bisa pak" which bring the meaning of "can sir". It is local culture to respect and give positive response to their guest. Be remind that it might be a courtesy response with no execution intention. Therefore, foreign investors should double confirm their intention in order to prevent uncommitted promises resulted in cost overrun.

Starting your business in oversea is never easy. You need to understand their regulations, language and local culture. Your investment will be much easier with an appointment of capable business advisor. Good luck!

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Reference:

[1] <https://www.indonesia-investments.com/business/foreign-investment/establish-foreign-company-pt-pma/item5739>