The awakening giant

Business opportunities with Indonesia

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Geographically, geo-politically and economically, Perth is located ‘In The Zone’

The time zone(s) shared by Perth hosts
- 60 per cent of the world’s population
- the growth nations
- many mega cities
  - Greater Jakarta >22m
Based on current trends, Asia* will be the world’s largest economic region by 2030.

Source: IMF

* ‘Asia’ includes Australia and New Zealand
Key Indonesian economic indicators are positive

GDP growth by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>2009</th>
<th>First semester 2010</th>
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</thead>
<tbody>
<tr>
<td>Communication, transportation</td>
<td></td>
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<tr>
<td>Electricity, gas, drinking water</td>
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<tr>
<td>Construction</td>
<td></td>
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<tr>
<td>Services</td>
<td></td>
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<tr>
<td>Financial</td>
<td></td>
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<tr>
<td>Mining</td>
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<tr>
<td>Agriculture</td>
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<tr>
<td>Manufacturing</td>
<td></td>
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<tr>
<td>Trade, hotel</td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td></td>
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</tbody>
</table>

GDP per capita

IMF forecast 2010

Population

Headcount (million)

IMF forecast

Source: CBS

247 million by 2014

GDP growth (per cent)
Key Indonesian trade indicators are positive

Foreign trade

$US billion

Capital imports

Major import source

Source: CBS

Australia ranks 8th

Source: CBS

Foreign trade indicators for Indonesia, showing positive trends.

Capital imports over the years from 1994 to 2008, with a significant increase in the first semester of 2010.

Import sources comparison, with Australia ranking 8th.

Source: CBS
Key investment indicators are positive

Investment
Per cent of GDP

Consumer spending growth

Cement production and consumption

$US billion

Key investment indicators are positive

ASl estimates
Perth is positioned to take advantage of strong Asian growth…

"Most of the increase in world population and consumer demand through 2020 will take place in today’s developing nations—especially China, India and Indonesia"

"The “arriviste” powers—China, India, and perhaps others such as Brazil and Indonesia—could usher in a new set of international alignments…" (US National Intelligence Council Mapping the Global Future)

Data source: IMF World Economic Outlook
Negotiation of an Economic Partnership Agreement with Indonesia is close

www.depdag.go.id
www.dfat.gov.au
Expanding our thinking beyond trade towards economic integration

- Trade in goods
- Trade in services
  - e.g., technical services, professional services, labour services
- Foreign investment facilitation
- Cross-border, integrated industries
- Sharing of technology and skills
- Cooperative supply chains to other markets
- Lowering of behind the borders barriers
- Capacity building in economic governance, infrastructure and service delivery
Free trade in goods

- Australia is eliminating 100% of tariffs for AANZFTA nations by 2020
- Indonesia is eliminating 93% of tariffs by 2025
- Opportunity for economic advantages by moving early!

Examples

- Motor vehicle parts and motor vehicles
- Live cattle and meat
- Grains, sugar, rice
- Vessels
- Consumer electronics
- Furniture
- Textiles, clothing and footwear
Liberalised trade in services

**Major benefits for both countries**

**Examples**

- Legal
- Accounting
- Architecture
- Education
- Health
- Construction
- Mining services
- Labour services

**Modes of service trade**

- Mode 1: cross-border trade
- Mode 2: consumption abroad
- Mode 3: commercial presence
- Mode 4: presence of natural persons
Two-way investment needs to be built

*Indonesia and Australia need investment*

- Lift restrictions on foreign equity
- Lift restrictions on service provision
- Continue micro-economic reform
- Encourage employment of skilled Indonesians and Australians in both countries
Sharing of technology and skills

- Build two-way investment in agriculture, mining, manufacturing, services
- Develop services together
- Enable movement of skilled people
- Harmonise standards and regulations
- Recognise qualifications
Integrated industries and joint supply chains

- Beef industry
- Tropical fruits
- Dairy industry
- Construction
- Gas
- Services
  - banking
  - professional services
  - technical services
Engineering across borders

*Design, construct, install, operate, maintain*

[Graph showing investment trends over time]
Trade between Australia and Indonesia: plenty of room for growth!

Australian trade

Exports to Indonesia: 3%
Imports from Indonesia: 3%

Indonesian trade

Exports to Australia: 3%
Imports from Australia: 5%

Trade volume Australia - ASEAN
Trade volume Australia - Indonesia

Source: Australian Bureau of Statistics & CIE FTA Modeling
Unlock bilateral foreign direct investment: mining and services are big opportunities

**Bilateral Australia-Indonesia FDI**

- **Indonesia FDI in Australia**
  - Indonesia Outward
  - Australia Inward

- **Australian FDI in Indonesia**
  - Indonesia Inward
  - Australia Outward

Source: CIE FTA Modeling Report Jan 2009
Australians do not understand Indonesia well

…but a great story is emerging…
…and we all must tell it

Source: Lowy Institute Poll 2009
## Indonesia’s infrastructure lags behind

<table>
<thead>
<tr>
<th>Metric relative to developing Southeast Asia</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy &amp; power</strong></td>
<td>52 per cent of average energy production per capita</td>
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<tr>
<td>Indonesia needs to double the capacity in the next 6-7 years to meet demand in 2018.</td>
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<tr>
<td><strong>Roads</strong></td>
<td>61 per cent of length of average road kilometres per capita</td>
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<tr>
<td>~ 35 per cent of district roads and ~ 10 per cent of national roads are “heavily damaged”.</td>
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<tr>
<td><strong>Ports</strong></td>
<td>77 per cent of average port infrastructure quality</td>
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<tr>
<td>Indonesia only hosts 2 international hub ports; resulting in congestion at these hubs.</td>
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<tr>
<td><strong>Rails</strong></td>
<td>54 per cent of average railway kilometres per capita</td>
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<tr>
<td>Accounts for more than 10 per cent of passenger and less than 1 per cent of freight transport market.</td>
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<tr>
<td><strong>Airports</strong></td>
<td>107 per cent of average number of airports per capita</td>
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<tr>
<td>Passenger traffic experiences third fastest growth worldwide; exceeded only by China and India.</td>
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<tr>
<td><strong>Telecoms</strong></td>
<td>80 per cent of average number of cellular phones per capita</td>
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<tr>
<td>Subscriber base grew by ~ 40 per cent between 2000 and 2007 annually.</td>
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</tbody>
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Source: McKinsey and Co, Indonesia
The Economic Partnership Agreement will be different… so will the negotiations

• Bilateral business workshops to be held in conjunction with IABC and KADIN (and ACCI) to discuss the desired scope of an EPA
  ▪ Companies and other industry associations will be invited to participate in the workshops
• Indonesian and Australian business, by sector, to participate in face to face discussions on specifics of the EPA
  ▪ Tell Governments what business wants

• AIBC Economic Partnership Advisory Committee will
  • Work with State Branches
  • Work with members
  • Work with other industry associations in Australia and Indonesia
Proposed industry sector groupings for engagement in consultations and position development

- Agriculture
- Manufacturing
- Education and health services
- Tourism and creative industries
- Resources
- Mining and petroleum services
- Technical services (eg, architecture, engineering)
- Financial services
- Business services (legal, accounting, other business services)

- Plus three cross-sectoral issues
  - Intellectual property / copyright
  - Legal certainty and dispute resolution
  - Competition policy
Additional capacity-building programs that could be implemented as part of the EPA

• Focus on building economic capacity, and capacity for doing business with foreign countries

• Help build Australia-Indonesia business relations
  ▪ To overcome underperformance in trade and investment between Indonesia and other countries

• Improve the investment climate for both foreign and domestic business

• Develop effective markets in key areas:
  ▪ eg, infrastructure and service provision such as gas, electricity, water, telecommunications and transport; and in business services

• Develop greater capacity in vocational and tertiary education
  ▪ opportunities for a new phase of cooperation, co-investment and exchange of people
“Australia and Indonesia have a great future together. We are not just neighbours, we are not just friends; we are strategic partners. We are equal stakeholders in a common future with much to gain if we get this relationship right and much to lose if we get it wrong…”

His Excellency, Dr Susilo Bambang Yudhoyono, President of the Republic of Indonesia, 17 March 2010.

“We need to encourage our private sector to do more business with one another”