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TRADE AND INVESTMENT BETWEEN EU AND INDONESIA: OPPORTUNITIES AND OBSTACLES AND INDONESIAN TRADE WITH THE EU

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- Indonesia is South East Asia's largest economy and has the world's 4th largest population, with more than 240 millions inhabitants. Indonesia-EU trade and investment relations are strong and growing.
- Many studies have shown that the potential and opportunities offered by the Indonesian market, not only from the perspective of EU export interests, but also how EU goods, services, technology and investment could contribute to Indonesia's economic development and enhance the competitiveness of its industry.
- There are substantial opportunities to expand EU-Indonesia trade and investment. The size and growth on the Indonesian market are attractive to foreign exporters and investors. Leading EU exports to Indonesia have included capital goods, telecommunications equipment and different types of machinery and equipment.
- Given fairly encouraging growth rates above 5 percent in Indonesia, the demand for capital investment for infrastructure and enterprises will increase considerably in the future. Infrastructure needs in telecommunications and the roll-out of 3G, WIMAX and broadband internet access all represent expanding opportunities.
- Investment in electricity generation is expanding including for large coal-fired power stations, geothermal energy and smaller back-up, community and SME generators. This is increasing demand for larger numbers of smaller power stations, including for renewable energy (solar, wind, biomass, mini-hydro) and for bio-fuel for power generation.
- Increased investment by enterprises in capital equipment by enterprises is being stimulated by regional ASEAN integration, which is expanding access to export markets and increasing competition in the domestic market. As Indonesia



integrates into regional production networks both domestic and foreign enterprises will need to upgrade their capital equipment and enhance productivity to participate more actively in the dynamic growth of the region.

- European manufacturers are already exporting a broad range of machinery to Indonesia. Machinery and equipment for manufacturing and packaging food products and textiles have currently good prospects. The niche markets for European exporters of premium or branded consumer products are likely to experience strong growth.
- The EU is an important trading partner, but the level of EU trade and investment in Indonesia has been proportionally less than for other ASEAN countries relative to the size of the economy, primarily due to the relatively smaller role of FDI in the economy.
- However there have been recent major increases in FDI into Indonesia, that the EU is the leading investment partners, and that the leading EU member states investing in Indonesia are the UK, the Netherlands, Germany and France.
- Indonesia is engaged in international negotiations in the Doha Development Agenda (DDA) under WTO. It is also involved in ASEAN integration for trade in goods and services and in the implementation of ASEAN Plus FTAs with China, South Korea and Japan. FTA negotiations have been completed with Australia and New Zealand by ASEAN and are underway with India. The 14th ASEAN Summit made a number of significant initiatives to deepen ASEAN integration for trade in goods, services and investment and to expand the ASEAN Plus initiatives. Most of these FTAs focused primarily on trade in goods, with limited services components based on Indonesia's services commitments in the WTO.
- It is true that there are still many challenges to do business in Indonesia, with a long list of trade barriers. When and if the Indonesian government will be ready, the EU private sector would be interested in contributing to a balanced free trade agreement with the European Union.
- The future of the bilateral trade and investment relations from a private sector perspective is quite good in Indonesia, with a large number of domestic reforms going on.
- The EIBD will no doubt contribute to this and BUSINESSEUROPE is pleased to participate in this dialogue, which should contribute to the long term economic development of Indonesia.

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