

**Indonesia and the European Union: A Unique
Partnership for Prosperity**

Financial Club Jakarta
Mon 27 Feb – 8.00 – 9.30

Scene Setter

This panel discussion with three key decision makers in Indonesia representing business, employers and chamber of commerce follows the lines of the current debate on a possible bilateral agreement with the EU and could help to get the outspoken support for EU Indonesia Vision Group Recommendations towards a Comprehensive Economic Partnership Agreement. Such openly declared backing from the domestic stakeholders would support the new Trade Minister decision to start the scoping process aiming at launching the negotiations in 2012.

A key argument here is to show that Europe is different from China and other economies that directly compete with Indonesian domestic business: our economies are complementary and our investors provide good labour conditions. Moreover, EU invests in adding value to the economy. This potential could be much better utilised (only 1.6% of EU investments to Asia going to Indonesia) and a Comprehensive Economic Partnership Agreement CEPA would be a good way forward.

Press conference will be short event during which speakers will be asked to say a few words regarding the Indonesia-EU commercial relations.

Speaking points for the panel discussion

- Thank you, Pak Airlangga, Pak Wanandi, Pak Emirsyah, for your remarks. It is a real pleasure to be in Indonesia again and to hear the outspoken support for what the European Union can contribute to Indonesia's growth agenda.
- Indonesia's economic growth of 6.5% in 2011 is substantial – a figure most European countries can only dream of. Meanwhile, the EU – and more specifically the Eurozone members – are working hard to find a solution to sovereign debt problems in a number of Member States: Austerity packages, fiscal discipline and control structures are being put in place and funds are being made available jointly with the IMF to support the countries most in need.
- While media reports have indicated negative consequences of this for Indonesian exports, figures show that trade with the EU continues to grow substantially – by another 25% (estimate) in 2011. In other words: EU is and will remain your second largest export partner – simply because we value your products.
- The same applies to investments: In 2011, the EU is – as it was in 2010 – the second largest investor in Indonesia with current stocks of around 50 billion euro and 700 companies, directly employing over 500,000 people. The EU invests in higher end facilities that create added value to the Indonesian economy and European companies are said to be good employers in terms of labour standards.
- But is it enough? Of course it is not: Indonesia, besides being a market of 240 million of which many consumers are middle class, is the new BRIC on the block. It has just reached investment grade, implemented sensible fiscal policies and enjoys a stable political democracy. While arguably our bigger companies already find their way to Indonesia, it is notably the smaller and medium-sized companies who could contribute more and invest directly in Indonesia not only in labour intensive sectors but also bringing new technologies to upgrade the production processes.
- These economic complementarities were noted by the Indonesia – EU joint Vision Group that has highlighted the strong commercial relationship between Indonesia and the EU. However the joint report also pointed out that maintaining the status quo is not a satisfactory option and suggested that – in order to take more advantage of mutual opportunities -

Governments quickly start the process for the negotiation on comprehensive free trade agreement.

- I fully concur with the Vision Group's recommendations: while we have a longstanding partnership our countries do not take full benefits of this relationship: investments and trade are relatively low compared to neighbouring ASEAN countries and the EU could contribute much more substantially to Indonesian policy objectives.
- So how can the EU do this? I can think of three ways that we can contribute:

First of all, through investment. EU FDIs are already high (2.2 billion US\$ in 2011) but by far not as high as they could be. EU invests in sectors relevant to Indonesia including those where value is added. Think of automotives, machineries, even airplanes without forgetting the growing services sector.

EU investments are characterized by long-term relationships, sustainable development and fair employment conditions. European companies present in Indonesia today largely focus on supplying the domestic market with high-quality products, services and technological solutions. Indonesia's stable political and economic environment, its large population and abundance of natural resources, creates huge opportunities for increased EU investment which would be beneficial to the Indonesian economy.

Second, through creating the conditions for increased trade flows. Indonesia currently is only the EU's 29th largest trading partner. This leaves ample opportunities for substantial growth for an economy of the size of Indonesia's, also in comparison with smaller ASEAN countries, like Thailand or Malaysia, who currently have a larger share of the EU trade. EU consumers already enjoy a lot of Indonesian products, such as palm oil and timber but I am convinced that Indonesia's exports to the EU will further be boosted as Indonesian products climb up the value chain. In this respect, EU investors contribute to Indonesian exports in sectors such as pharmaceuticals, processed food, electronics and machineries, as well as technologically advanced products like Airbus parts

In terms of your imports from Europe: these are mostly in areas supporting Indonesia's industrial development, notably machineries and products that are inputs for further production such as chemicals. Most interesting is that – contrary to some of your other big trading partners –

our economies complement each other. Increased trade and investment flows between us are unlikely to increase direct competition with your local manufacturers - they would rather support their growth.

Finally and linked to the above, the EU stands ready to support Indonesia to take the most advantage of the relationship through reinforced **trade facilitation and capacity building**. Pak Emirsyah knows the level of cooperation that we had in order to support Garuda and other Indonesian carriers to access again the EU-market. We have programmes to ensure that food and fisheries fulfil the standards to enter the EU market and we provide support to the timber sector. EU technical assistance does not only target governments but we also work extensively with our partners KADIN and APINDO fostering business and governmental dialogues.

Attachments:

1. Programme of event
2. CVs of Airlangga, Wanandi, Emir
3. Trade and Investment update

"Indonesia and the European Union: A Unique Partnership for Prosperity"

Location: Financial Club, Jakarta

07.00: Registration and breakfast

08.00: Panel Discussion

09.00: Press conference

1. H.E. Hon. Mr Airlangga Hartarto – Chairman of Commission VI; House of Representative of the Republic of Indonesia

Strengthening the middle class, supporting economic development: complementary economies contributing to prosperity

2. Mr Sofyan Wanandi – Chair The Employers' Association of Indonesia (APINDO)

How can (European) investors and employers support Indonesia's employment agenda?

3. Mr Emirsyah Satar - President & CEO, Garuda Indonesia and Vice Chairman for International Economic Cooperation Relation, Kadin

European SMEs and their role in the Indonesian growth agenda and the Master Plan for Development

4. Mr David O'Sullivan – Chief Operating Officer European External Action Service

Three ways Europe can contribute to Indonesia's road to prosperity

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Government	Percentage
Current government	65%
Previous government	35%

Response	Percentage
Yes	75%
No	25%
Don't know	10%

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Response	Percentage
Appropriate	65%
Inappropriate	35%

A horizontal bar chart with 24 bars, grouped into three sets of four. Each bar is labeled with a percentage value. The bars are arranged in three distinct groups, each containing four bars. The first group has bars for 78%, 72%, 85%, and 70%. The second group has bars for 65%, 75%, 80%, and 60%. The third group has bars for 70%, 75%, 80%, and 65%.

Group	Bar 1 (%)	Bar 2 (%)	Bar 3 (%)	Bar 4 (%)
Group 1	78	72	85	70
Group 2	65	75	80	60
Group 3	70	75	80	65

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Key Trade and Investment data

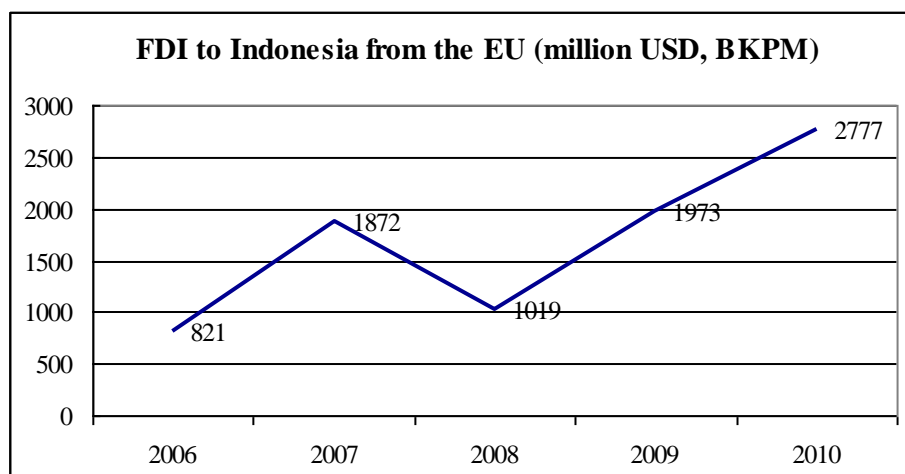
Overall, trade figures are up in 2011 – despite some of the concerns expressed in the Indonesian media.

Trade (based on Indonesia's own statistics) – in M USD (non oil and gas) has increased since crisis year 2009 substantially and overall Indonesian exports to EU now over USD 20 billion and being Indonesia's second largest export partner (after China)

	2008	2009	2010	2011*
Imports	9,328	7,839	9,575	11,866
Exports	15,187	13,558	16,769	20,256
Total	24,515	21,397	26,344	32,121
Growth		-12.7%	23.1%	21.9%

* based on Jan-Nov data (BPS)

For investment, a similar profile, with overall EU Foreign Direct Investments peaking at USD 2.8 billion in 2010 (figures for first half of 2011 at USD 1.4 billion continuing this positive trend – making EU the second largest investor in Indonesia (after Singapore)



Indonesia exports mainly palm oil and other (processed) commodities, whereas the EU exports machineries, aircraft and vehicles.

Indonesia's TOP10 export articles to EU27 in 2010			
		Value in million EUR	Share
1	Palm Oil	2,055	15%
2	Electrical machinery	1,507	11%
3	Rubber	1,118	8%
4	Footwear	866	6%
5	Minerals	730	5%
6	Ores, slag and ash	639	5%
7	Furniture	636	5%
8	Chemical products	626	5%
9	Clothing	593	4%
0	Wood	493	4%
	Total top 10	9,261	67%
	All products	13,727	100%

Source: Eurostat.

Indonesia's TOP10 import articles from EU27 in 2010			
		Value in million EUR	Share
1	Machinery	1,702	27%
2	Electrical machinery	775	12%
3	Aircraft	375	6%
4	Vehicles	332	5%
5	Organic chemicals	248	4%
6	Wood	211	3%
7	Articles of iron and steel	192	3%
8	Plastics	187	3%
9	Pharmaceutical products	174	3%
0	Dairy products	173	3%
	Total top 10	4,368	69%
	All products	6,372	100%

Source: Eurostat.

Indonesia is the largest ASEAN economy with 240 million inhabitants and an average GDP per head of around 4.000 US\$ (at PPP). The Indonesian economy has recorded positive growth in the past five years (5.5% in 2006 and 6.1% in 2010). This level of growth has put Indonesia as the world's fifteenth largest economies and the member of G-20. **The growth, to some extent, has gradually translated into the improvement of prosperity indicators.** The number of poor dropped by six million to 31 million (13%), and open unemployment dropped from 10% to 7.4%. However, the employment has been informal (69% of total employment), and not in terms of better quality jobs in the formal sector.

2010 growth was mostly driven by strong investment (+8.5%). The economy is expected to grow by 6.4% in 2011, largely contributed by domestic demand; external trade and direct investment. Capital inflows are still massive and volatile, but the authorities managed this well and Indonesia has - finally after the Asian crisis – reached again Investment Grade at the end of 2011.

The top ten Indonesian export commodities were diverse between natural resources commodities and manufacturing products. The largest non-oil & gas import categories for Indonesia were capital goods and raw materials (machinery and mechanical appliances, metals, chemicals, plastics, cotton, etc).

EU continued to be the largest destination for non-oil and gas exports at US\$ 17 billion (Indonesian figures, 2nd partner according to Eurostat figures including oil and gas). China remained the biggest import sources for Indonesia, and the EU as the fourth. Imports from the EU (US\$ 9.8 billion) increased by 13% and corresponded to 9% of total Indonesian imports, a drop from 11% in 2009.

After declining in year 2008, the direct investment recovered in 2009, a trend that continued in 2010. Cumulatively total investment realisation from both domestic and foreign investment was IDR 208.5 trillion, a 54% growth compared to 2009.

Despite the increasing investment levels, Indonesia's position in the world rank of investment climate further deteriorated. The World Bank's Doing Business Report 2011 ranked Indonesia at 121 out of 183 countries, a drop from last year's rank of 115. The legal environment is seen as improving. However, there are still legal uncertainties. Infrastructure investment is seen as inadequately low and rising FDI could help in this context. In addition, Indonesia did not increase its share in FDI inflows significantly in comparison to its Asian neighbours in recent years.