"The role of Indonesia in the global economy"
Roundtable with Indonesian Trade Minister Gita Wirjawan
Brussels (CEPS)
2 May 2012, 5PM

Scene setter

The first trip to Europe of the Indonesian Trade Minister Gita Wirjawan happens just one month after the meeting with Commissioner De Gucht in Phnom Penh in the margins of the AEM consultations and follows a visit last week of the Minister of Fisheries and a mission to three European countries of a the Chair of the powerful Indonesian Chamber of Commerce (KADIN).

These events and other visits planned in the coming months of high Indonesian dignitaries (including the Governor of the Central Bank) are clear signals of the renewed attention of Indonesian Government and business community towards Europe after a "reflection pause" started after the departure of the friendly Minister Mari Pangestu last October. Minister Gita is also scheduled to meet with Commissioner De Gucht just before this event and will likely discuss the prospects and next steps for a CEPA.

This invitation-only event is co-organised by the very active Indonesian Ambassador to the EU, Mr Havas Oegroseno and the leading think-thank CEPS. The debate will be moderated by Prof. Jacque Pelkmans (CEPS and Bruges) who has recently co-chaired the EU-Indonesia Vision Group. ASEAN diplomats and officials will attend together with academics and researchers on Indonesian matters. Minister Gita also expressed interest in meeting the press before or after the event.

Key messages

Indonesian investment climate

- In Europe we are very much impressed by the resilience of the Indonesian economy that combined with a political stability and consolidation of the democracy make your country, as KADIN Chairman Suryo said recently, the "sexiest country" of the moment. Visitors are flocking and investors are rediscovering Indonesia.
- The EU is consistently the second largest investor in Indonesia and second largest export market, but I do believe there is much more

potential. For instance, only 1.6% of our investments to Asia go to Indonesia, much below that of Malaysia or Thailand.

- EU investments are centred on long-term relationships, sustainable development and fair employment conditions. EU 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.
- Predictability is key for creating a conducive investment climate. Indonesia is making an attempt to address many of the uncertainties created by revising the Investment Negative List, however, the direction of the reform is ambiguous, as the list has become more restrictive towards foreign investment since 2007. Moreover, local content requirements and obligation for foreigners to disinvest are introduced in several sectors. Mining, telecommunications, horticulture are just some examples.
- Are you planning to revise the Investment Negative List? Business would welcome more predictability of the legislations and increased liberalisation especially in telecommunications, pharmaceutical manufacturing and distribution, maritime services, construction and express delivery services.

Perspectives for a bilateral agreement

- The EU is very much interested in developing closer relations with the countries of ASEAN that are also going toward a path of deeper economic integration with ambitious objectives to be completed by 2015. For this reason we already embarked on comprehensive negotiations with a number of countries in South East Asia that were ready to go, such as Singapore and Malaysia and soon Vietnam.

- As a leading country in the region with a large domestic market and blessed by abundant natural resources, Indonesia has been understandably cautiously observing this process. In 2010 we decided together to establish the Vision Group to ensure the necessary ownership of the process by all the stakeholders.
- As highlighted in the Report, economic relations between the EU and Indonesia are already well developed and, due to the complementarities between our economies, have the potential for further harmonious increase. The economic analysis is clearly suggesting that trade and investment liberalisation will bring benefit for both sides especially when the dynamic aspects of capital accumulation are taken in account.
- The Report suggests that for Indonesia an FTA with the EU will result in an additional 1.3% of GDP growth in 15 years time. This corresponds to 6.8 billion euro based on 2010 estimates and will significantly contribute to the alleviation of the poverty in the country.
- There are necessarily some sectoral adjustment aspects to be taken in account and the Report gives to efficient and innovative bilateral cooperation and capacity building in Indonesia. The EU is already providing such assistance bilaterally and through regional programme and will continue in a reinforced way in the framework of the Partnership and Cooperation Agreement signed in 2009.

Contact Point:
art 4(1)(b)

Background on Vision Group and CEPA

When the Indonesian President Susilo Bambang Yudhoyono met with the European Commission President José Manuel Barroso in December 2009 they discussed ways of enhancing our bilateral ties. The two Presidents agreed that trade and investment is an area where the bilateral relationship has great potential to develop, and on the need to explore ways to strengthen these ties. The two leaders decided to set up a "Vision Group" that will examine how to increase trade and investment between Indonesia and the EU.

This project, inspired by the former Indonesian Trade Minister Mari Pangestu, was in line with the positive political climate created by the partial resolution of the air ban and the consequent signing of the PCA, and had the objective of maintaining the momentum in the bilateral relations while buying some time to deal with the pressures of some sectors of the domestic industry, which is very much concerned about recent opening to other regional partners (especially China) mainly in the context of the ASEAN regional negotiations.

The main content of the Report as reflected in the conclusion and recommendations delivered in May 2011 to the Trade Ministers, is the following.

- The report analyses the current status of EU-Indonesia relations and argues that the status quo is not satisfactory. It also identifies four rationales for a more ambitious economic partnership.
- EU and Indonesia economies are complementary and can thus gain from stronger trade and investment relationships.
- There is a potential for further expanding trade and investment flows. A bilateral trade agreement (linked to the already signed PCA) would be the best way forward.
- However, to be meaningful this agreement should be ambitious in multiple ways: it should go beyond simple market access liberalisation but include provisions in areas such as investments, procurement, services, public procurements, etc. Moreover, it should include or be linked with elements of trade facilitation and capacity building.
- The proposed architecture is a triangular one with emphasis on market access, capacity building and trade and investment facilitation.
- The Report also goes into the details of the proposed Comprehensive Economic Partnership Agreement (CEPA). First of all, tariff liberalisation should cover 95% of tariff lines and trade in a maximum period of 9 years. This should be complemented by provisions addressing TBTs and SPS matters. It also argues for deep liberalisation in services and investments and for provisions liberalising public procurements and the infrastructure market (especially through Public Private Partnership). Moreover, there are Chapters dealing with IPRs (including GIs), competition and sustainability. The two final chapters deal with the governance of the agreement (arguing for a dialogue and cooperative based approach, although accompanied by an effective dispute settlement mechanism) and an innovative communication strategy and stakeholders dialogue.

From the EU perspective, an agreement with Indonesia would be of high interest given its size and our declining market share in the country. However it will also be challenging in terms of substance and resources.

The Indonesian Government is currently consulting the main stakeholders on these recommendations, but also on the more detailed contents of a possible agreement (socialisation campaign). This will pave the way in Indonesia to the formal decision (by the President) to open negotiations. This consultation exercise appears all the more important due to the backlash of the alleged negative impact of the ASEAN FTA with China and the criticism of the Government for not having conducted a proper information campaign.

The first reaction from industry representatives from both sides has been positive as they stress the complementary aspects of the two economies. The two most important business associations in Indonesia are supportive of the process even though some sector representatives expressed doubts (mainly in services areas) while others are expressing the 'usual concerns' about EU policies (such as RED, FLEGT, REACH and the EU food safety regime). Moreover, surprisingly, Indonesian trade unions expressed initial support, indicating EU companies have higher employment standards and are better in line with OECD best practice.

The previous Indonesian Trade Minister Pangestu was – in principle - a supporter of a CEPA with the EU [redacted] art 4.1.(a) [redacted] Her concern seemed justified as she was replaced during a reshuffling of the Government in October 2011 by the Chair of the Investment Coordinating Board (BKPM) Gita Wirjawan.

A first informal meeting to prepare the ground for the scoping exercise prior to the formal opening of negotiations has taken place in the margins of the annual Working Group on Trade and Investment (WGTI) end of June 2011, but since then there has been no follow-up from the Indonesian side. This lack of response can be best understood from the above political context, the reshuffling in the Government and the cautiousness of the MoT preferring to wait for the results of the internal "socialisation" process.

During the meeting of Commissioner De Gucht with Minister Gita in the margins of the ASEAN-EC consultation in Phnom Penh on 2nd April 2012, the Indonesian side showed a renewed interested in opening bilateral talks and a new draft scoping paper has been transmitted to the Ministry of Trade.

We expect a first reaction from the Indonesian side on the occasion of Minister Gita trip to Brussels to meet Commissioner De Gucht on May 2nd 2012.

<u>Background on Indonesia investment climate</u>

Indonesia has done an impressive job in keeping the economy stable and recording the largest growth in Southeast Asia and one of the few economies recording positive growth throughout 2009. East and Southeast Asia are likely to continue to be a dynamic region with relatively fast economic growth. The dynamism of the region and the integration of production networks in the ASEAN+ region will enhance economic potential in Indonesia. Coupled with its large demographic dividend, with falling birth rates and an increasing number of people entering the labour market in the next decade, and an abundance of commodities, Indonesia is well placed as the largest economy in ASEAN to tap on these new opportunities.

With domestic consumption levels reaching 60% of GDP, Indonesia has remained relatively little affected by the global economic crisis. The Government realises that the development of Indonesia and reaching growth levels of above 7% by 2014 as envisaged in its Medium Term Development Plan, will need substantial foreign investment – the figure of US$ 25-35 billion – and even as high as US$ 100 billion per year have been mentioned. The Government acknowledges that higher investment levels are crucial in order to increase competitiveness, create higher growth, efficiency of markets and generation of capital as well as tackling poverty and unemployment. This is also reflected in the FDI Strategy f the Investment Coordination Board (BKPM), however the EU, albeit being one of the largest investors in Indonesia, is not mentioned among the priorities in this document.

Since the Asian crisis, reports show that Indonesia's world market share of exports has stagnated in both goods and services, also for its traditionally competitive sectors such as textiles, apparel, leather and footwear as well as mining. Indonesia has not attracted sufficient new, long-term investment to foster innovation and competition in order to upgrade its industry and export structure. EU investors are centered on long-term relationships, sustainable development and fair employment conditions. EU companies present in Indonesia today largely focus on supplying the domestic market with high-quality products and technological solutions.

Indonesia has since the Asian crisis embarked on an impressive reform path on a number of areas related to improving the business climate. As an important step in improving the investment climate, the Government issued in 2007 a new **Investment Law** aimed at creating greater transparency for investors. However, the adoption of a **Investment Negative List** ("DNI") in July 2007 (amended in Dec. 2007 and July 2010) introduced both more uncertainty and more restrictions related to foreign direct investment.

The **negative list** proved to become more restrictive than its predecessor, introducing further restrictions in capital and technological intensive sectors such as telecom (from 95% to 65% or 49% FDI limit), transport services (from 95% to 49%), pharmaceutical manufacturing (from 100% to 75%) and construction services (from 95% to 55%). The revision of the negative list in late 2007 introduced additional restrictions (e.g. retail).

The issue of **grandfathering or protection of existing investments** needs to be further clarified. The recently enacted Law on Horticulture imposes a 30% foreign equity threshold (down from 100%). The most alarming issue is that it forces foreign companies to divest 70% to a domestic company within four years. In security services sector, foreign companies were forced to divest 51% of their shares to local partners.

A growing number of sector regulations and laws issued by line ministries are inconsistent with the negative list. Notable examples of this are courier/express delivery services in the Postal Law and the prohibition of foreign participation in **telecom tower construction and services**. A legal analysis also shows that the **restriction on telecom towers** is contradicting Indonesia's WTO/GATS commitments.

Government Regulation 20/1994 obliges 100% foreign owned companies **to divest part of their shares** (in practice 5%) to an Indonesian partner after 15 years of operation. There have been no indications that this requirement would be removed.

A revised negative list was issued in July 2010, however not introducing any major changes, although the Government claims that 40 sectors have been liberalised. Foreign ownership in the banking sector, previously 99%, is now decided on a "case by case" basis. Large-scale agricultural plantations are reduced from 95% to 49%. Certain construction consultancy services (such as architecture) are reduced from 55% to 49% and other construction services are increased from 55% to 67% FDI. However, both services were 95% before the negative list of 2007 was issued.

Many regulations are issued with limited public consultation, in particular with the foreign business community. Indonesia would gain from increased public consultation and transparency, since it could help avoid much of the problems in implementation due to lack of feasibility and overlapping regulations.

Local content requirements in the telecom sector have been adopted for wireless broadband and fixed line and internet telephony of 30-40%. Such restrictions appear to be against Indonesia's WTO commitments, notably WTO/TRIMS Article 2.1. The Government argues that local content requirements can apply since it is "Government procurement" – however the ownership and operation of the equipment and services remain with private parties.

A new **mining law** was adopted in December 2008, which requires that minerals and coal must be processed before export, thus imposing an **export ban on raw minerals and coal**. The implementing regulations also impose **local content requirements on equipment, labour and mining services** used as well as other conditions prioritising national interests (setting price controls, domestic market obligation, divestment of 20% required within 5 years of operation for foreign-owned companies). Legal analysis shows that these provisions appear to be in breach of TRIMs. The divestment requirements of 20% would also violate bilateral investment treaties that Indonesia has entered with several EU member states. Considerable uncertainty surrounding the mining law hinders new investment to the sector.

ANNEX – Conclusion and Recommendations of the EU-Indonesia Vision Group

1. Relations between Indonesia and the EU are generally good and economic relations healthy. Nevertheless**, the status quo is unsatisfactory**, leads to underperformance and ever more missed opportunities for both partners in the longer run. Partners can profitably build on the recent deepening in their relations expressed in the Partnership and Cooperation Agreement.

2. However, as a strategic response to the dynamism of world business and active bilateral and regional economic diplomacy, an incremental approach will simply not do. Serving the long-term goals of open economic development and **sustainable growth** for the two partners requires a decisive new initiative.

3. Our Vision is that the **Indonesia-EU partnership has to be invigorated,** in the pursuit of the objectives of economic growth, job creation and poverty reduction.

4. Going for deeper economic relations between the EU and Indonesia, and with a wider scope, is the logical sequel of the steady stream of Indonesia's political, institutional and economic reforms. It is also most desirable for Indonesia achieving a sustainable high-growth path via much greater participation in global value-chains, with localized benefits for suppliers and the economy at large. It is equally a logical follow-up to the EU's trade policy since 2006, seeking 'deep' and ambitious economic partnerships with countries or regions having significant potential. The EU is rediscovering the new Indonesia with its large potential in terms of size, current and expected growth rates, the ongoing shift towards manufacturing exports, emerging services, increasing openness (especially vis-à-vis Asian partners) and macro-economic stability. For Indonesia, it is a strategic priority to invigorate its economic relations with the EU as its second largest export destination and the largest investor in the country. For Indonesia, the EU is promising as the biggest economy in the world, in terms of GDP, trade in goods and services, as well as incoming and outgoing stocks of FDI.

5. It is critical – especially for Indonesian decision-makers and stakeholders - to appreciate fully that a deep and invigorated economic relationship with the EU is not costly in the short-run. Quite the contrary, it will generate major economic benefits, quickly increasing over time with the shift to higher-value added goods and incoming direct investments. Indonesia and the EU are strongly complementary economies, which means that direct competitive rivalry in markets, where Indonesian domestic firms are active, will be rare or absent. Although adjustments in term of lesser growth or restructuring might occur in the short run in a few product-markets, most adjustments will consist of upgrading and internationalising, with better quality or newer products, hence, with highly positive results. The EU exports very different products to Indonesia than Indonesia to Europe. Indeed, in some sectors, this complementarity will be directly helpful to expand Indonesian exports based on components from EU companies and this is likely to be bolstered by EU investments building on Indonesian comparative advantages in the region as well as vis-à-vis Europe.Under this new initiative, complementarity will often be accentuated by the combination of trade and EU direct investments.

6. As a **guiding principle, due consideration should be given to the different levels of development** of the two partners. A deeper and wider partnership should therefore allow for flexibility. Another horizontal and crucial issue consists of sustainability and environment. Sustainability can, indeed should, be turned from an often negative perceived imposition into a promising and profitable opportunity. This is true both for exports and direct investments. For example, exports of sustainably produced timber and palm oil present enormous opportunities for Indonesia. Moreover, the greater the efforts at sustainability, the greater the benefits for EU investors and Indonesia.

7. It is also critical to **involve stakeholders** in the discussions on the new partnership possibilities at an early stage.

8. The Vision Group recommends the conclusion of **an ambitious bilateral agreement** between Indonesia and the EU.

9. This **Comprehensive Economic Partnership Agreement** (CEPA) should be based on a free trade area as the foundation in WTO terms, and have a triangular architecture: **market access, capacity building and facilitation of trade and investment.** The ambition of the CEPA would be present in all three elements. It is the complementarity and interaction, also over time, of these three elements which will engender the desirable development impact for Indonesia via higher-value-added exports and, at the same time, turn Indonesia into a more attractive market for EU goods and services as well as a promising investment location.

10. In terms of market access, **it would consist of a deep FTA.** This would imply access liberalisation in goods, services and direct investment, complemented by 'behind-the-border' commitments covering a range of sanitary and technical regulations issues based on internationally accepted requirements or standards where feasible. It should also include commitments on intellectual property rights protection and competition policy, taking note that Indonesia, as one of only few ASEAN countries, already having initiated such a policy. This should be linked with capacity building as well.

11. **For the markets in goods**, the Vision Group recommends a move to zero tariff for **95% of tariff lines with at least 95% of trade value** covered in a period of maximum 9 years. The time path ought to reflect fully the different levels of development of the partners: the EU would have a higher initial commitment and a faster dismantling period. A best-endeavour clause on the remaining 5% permits further progress in future. Safeguards and/or provisions on sensitive sectors may be incorporated. At the same time, credibility and ambition would be negatively affected if such provisions and their application would not remain truly exceptional and subject to objective criteria.

12. Market access for goods also depends critically on **overcoming or avoiding sanitary (SPS) and technical standards (TBT) issues and sometimes other non tariff measures (NTM)** such as onerous administrative requirements and excessive licensing. These questions should first of all be addressed on the basis of the WTO SPS and TBT Agreements, adhered to by both Indonesia and the EU. Where existing provisions would still be WTO inconsistent, the CEPA could be a first recourse to overcome it. On SPS and TBT questions, the three elements of the CEPA should be regarded as complementary, in particular capacity building.

13. For the purpose of the CEPA, **capacity building is defined as comprising three interactive levels**: (i) permanent dialogues, both business to business and business to government; (ii) technical dialogues and commitments, illustrated by proven examples in timber, fisheries and civil aviation; and (iii) financial cooperation to support tangible outcomes following suggestions from technical committees of the Joint Agreement. Under a CEPA, capacity building should go beyond the already existing, substantial efforts in a range of sectors. It is critical for effectiveness that capacity building is not merely output oriented (that is for example, that agreed efforts actually being undertaken to meet specific objectives), but outcome oriented (for example, that the capacity to comply with EU health, safety and environmental requirements is sufficiently improved for exports to reach the EU market). Capacity building efforts should therefore be measurable, and carefully targeted sectorally, for example on SPS or TBT standards and subsequent results regularly monitored in the Indonesia – EU dialogues.

14. **Combining facilitation and capacity building**, it is worth studying or otherwise considering how a more systematic alignment between EU standards and conformity assessment systems and those of Indonesia can be achieved. In particular, the Vision Group recommends that the CEPA should identify priority sectors, every three years, where standards, testing, conformity assessment and accreditation can be aligned and propose solutions to facilitate improved access to both markets within a reasonable time-frame.

15. **For services, liberalisation would have to be Doha-plus in various ways**. The Vision Group recommends the binding of existing, actual liberalisation as a practical starting point. Beyond that, both partners should commit in a CEPA to certain levels of new openings in key services sectors so as to create new business opportunities. Liberalisation for services would naturally be linked with greater freedom to invest locally in services in Indonesia (whilst in the EU, given 'national treatment', Indonesian investment, which has now started, will find few obstacles).

16. The Vision Group recommends that the **CEPA should include concrete measures to promote green components in EU-Indonesia trade and investment**, while creating growth, value and jobs. This should result in the evolution of a competitive “green” business model which benefits both parties. This can be a platform for fighting climate change and protecting the environment. Capacity building and trade facilitation should be designed with sustainability objectives in mind.

17. Market access should include wide opportunities to **invest locally**. For Indonesia, EU business might invest in particular segments of the value chain, for re-export back to Europe. Perhaps an even greater win-win would result from improving market access for EU direct investment, using Indonesia as a production platform for sales to the wider ASEAN Economic Community. Given other emerging FTAs with the EU in the region, and given competitive conditions, greater market access would be a clear signal to EU investors to explore such win-win possibilities in Indonesia. Current EU FDI levels in Indonesia are relatively low. The CEPA should include measures and incentives to enhance the attractiveness of Indonesia for EU FDI and thus help increase EU FDI flows to Indonesia. Stimulated by the prospect of a CEPA, liberalization of restrictions on foreign ownership (equity caps), foreign business

access and local content requirements – including public procurement – is expected and should stimulate increased FDI. This would be seen as an improvement of direct investment incentives by European business which, nowadays, often refrains from investing given stringent equity caps. Market access for direct investment (called pre-establishment in the EU) can be usefully complemented with investment protection (post-establishment). Today, Indonesia has agreed Bilateral Investment Treaties (BITs) with 17 EU countries. Given the EU Lisbon Treaty with new investment powers, the EU and Indonesia should aim to conclude, in the medium run, one single BIT to promote legal certainty for EU and Indonesian investors.

18. Effective market access is also determined by the IPR regimes of the two partners. Although **IPRs** are often crucial for the distinct competitive advantages of EU companies, given the EU's level of development. This is already applicable to some Indonesian companies and will become more relevant in the future. With respect to Geographical Indications, Indonesia is interested in improving market access to the EU for a number of traditional quality food products by obtaining recognition of protected indications, thereby moving up the value added/quality level for its sales in Europe. Similarly the European GIs will seek a higher level of protection in Indonesia. More generally, IPR legislation in both EU and Indonesia is TRIPs consistent. The ambition of the CEPA would thus be to improve implementation and enforcement as well as to make the IPR-regime TRIPs-plus, where relevant. This should be addressed with the help of capacity building.

19. **Facilitation of trade and investment** should, in any event, build on current improvements in customs procedures and automation. Direct investment from EU companies can be profitably linked to infrastructure, public works in infrastructure and public/private partnerships (PPP). The European-Indonesian Business Dialogue has made joint proposals which we strongly support. We recommend their urgent follow-up to help lower costs of logistics in Indonesia. European business has the funds, expertise/know-how and willingness to invest, based on such proposals. Effective facilitation of and investments in infrastructure linked to globalisation is vital for profitable incorporation of Indonesian and EU local establishments into global value-chains. In this way increased investment will interact much better with market access and capacity building. It will equally improve the competitiveness of Indonesian exports to the EU– especially in manufacturing - , where internal and external competition is sharp on price and quality.

20. Furthermore, in order to increase the magnitude of the benefits of the proposed CEPA, on infrastructure development in Indonesia, the Vision Group recommends to future negotiators of the CEPA to discuss public procurement, notably in infrastructure. The parties should agree on setting up transparency rules and the negotiation of additional levels of mutual access to the respective public markets.

21. It is recommended to open up possibilities for EU investors in **public works, especially in infrastructure and combined with public private partnerships (PPP)**, which are attractive for such investors. Poor infrastructure is a deterrent for FDI and the Vision Group therefore recommends to ensure the existing PPP model becomes fully functioning as soon as possible; the exact type and level of Government support (asset buy back, minimum revenue, expected commercial returns, etc.) needs to be

identifiable in advance with clarity on risk/return parameters to attract foreign financial investors. We believe that the EIB can play an important role in this including possible support for the Indonesian Infrastructure Guarantee Fund (IIGF) where additional capital and capacity building are necessary. The Vision Group recommends that the one stop shop concept, as established in 2009, should be further improved - also in view of reducing the necessary licenses needed for investments - as a single point of contact for investors, both in Indonesia and EU Member States, as a desirable example of facilitation.

22. **Capacity building** is already included in current EU-Indonesian cooperation and the recently signed PCA. We recommend a close coordination of programmes on the bottlenecks and capacity problems identified in this report, including specific SPS components such as laboratories, recognition, technical and administrative support to SMEs (for export purposes to the EU) including improvements to technical infrastructure for standardisation, testing, conformity assessment. The Vision Group recommends a broad range of mechanisms to set forth a process of capacity building that may eventually lead to mutual recognition. Rapid and careful follow-up will clearly require one or more joint and technical committees under the CEPA. It will also be useful to involve EU business associations, linked with Indonesian business associations, since they are informed about EU requirements and customers' and consumer needs. Our report suggests building on existing efforts to improve Export Quality Infrastructure e.g. for fisheries and recommendations on energy and the 'green economy'.

23. The CEPA should have solid **'governance'** based on trust, friendship and rules. The specific follow-up of the CEPA treaty in its various areas of policy and capacity building requires permanent cooperation and consultation. Both partners should 'invest' in the proper working of the Agreement in this respect. Nevertheless, no matter how 'deep' economic relations are or will become, differences of opinion will emerge under any agreement anywhere in the world. The Indonesia-EU CEPA will be no different. Differences of opinion should not be allowed to simmer, let alone to turn into trade conflicts. Recent experience in timber shows that dialogue and concrete willingness to address issues, backed by technical cooperation, can work. The present dialogue on palm oil – the top Indonesian export product to the EU - and the EU RED directive should be pursued constructively. Dialogues and cooperation represent the spirit of working together which the Vision Group recommends. The CEPA should explicitly incorporate this idea. Firm dispute settlement, based on recognized international practice of today, should be included. Without that option the CEPA would lose credibility. However, given a credible dispute settlement, partners should nevertheless employ other mechanisms, including intense dialogue and technical cooperation, before resorting to dispute settlement.

24. The Vision Group recommends **early consultation with stakeholders** which is very important to generate strong and widely shared interest in a future CEPA and to craft political support for it among business people, government officials, politicians and civil society.

25. The Vision Group urges that prompt follow-up be given to its recommendations, notably that **socialisation/consultation will start immediately, as well as scoping**

(pre-negotiation consultations) in accordance with prevailing procedures in respective parties. Indonesia and the EU should strive for the (announcement of) negotiations to commence soonest.

26. Once negotiations are launched, the Vision Group underlines that the ambition and credibility of **this new and innovative initiative requires political determination to finish the negotiations rapidly, preferably within two years**.

MAIN ECONOMIC INDICATORS

	Value	Unit / Year
Population	241	Million (2011)
Current GDP	607,5	Billion euro (2011)
GDP per capita	2.520,5	euro (2011)
Real GDP growth	6,4	% change over previous year (2011)
GDP in Purchasing Power Parity	1.123	Billion Current Int. Dollar (2011)
Budget deficit	1.3	% of GDP
Current Account Balance	0,2	% of GDP (2011)
Inflation rate	5,7	% change over prev.ious year (2011)
Unemployment rate	6,8	% of workforce (2011)
World imports (goods)	100,1	Billion euro (2010)
World exports (goods)	115,5	Billion euro (2010)
Trade balance (goods)	15,4	Billion euro (2010)
EU Imports (goods)	16,15	Billion euro (2011)
EU Exports (goods)	7,35	Billion euro (2011)
EU Trade balance (goods)	-8,80	Billion euro (2011)
EU Imports (services)	1,4	Billion euro (2010)
EU Exports (services)	2,3	Billion euro (2010)
EU Trade balance (services)	0,9	Billion euro (2010)
EU FDI outward stocks	20,4	Billion euro (2010)
EU FDI outflows	0,6	Billion euro (2010)

Sources:
IMF (World Economic Outlook), World Bank (WDI), IMF (DoTS), Eurostat (Comext)

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