INDONESIA

What’s happening in this economy

After India and China, Indonesia is the world’s fastest growing consumer market. While as elsewhere, the COVID-19 crisis has impacted on the economy in 2020, over the last decade average growth has been steady at around five per cent and GDP reached over USD 1.1 trillion in 2019. Java contributed the most to national GDP, amounting to 59 per cent, followed by Sumatra and Kalimantan.

Growth in per capita GDP – which exceeded USD 4,000 in 2018-19 – has been driving rapid changes in consumer spending patterns, savings behaviour and capital formation.

Private consumption makes up 57 per cent of GDP, fuelled by an expanding middle class aspiring to a modern, international standard of living. Consumers in Indonesia, the world’s fourth most populous country, are expected to spend an additional USD 1 trillion a year by 2030.

With around half of Indonesia’s population below 30 years old, there is a growing demand for consumer goods, targeted education and training, and innovative knowledge-based services and technology. The increase in internet access and the rapid uptake in smartphone usage in Indonesia is enabling government, business and consumers to take advantage of new digital services.

The regulatory environment for imports and agricultural commodities, especially finished goods, can be complex, ambiguous and changeable. While there is ongoing discussion around further liberalising investment, several sectors remain fully or partially closed to foreign investment. In addition, rules can constrain the ability of foreign professionals from working in Indonesia.

Indonesian economic policy priorities are similarly mixed. Trade policy is characterised by a focus on self-sufficiency, and investment policy combines a desire for greater foreign investment to fuel infrastructure and employment with a strong focus on economic nationalism. The Indonesian Government is prioritising greater connectivity and more equal growth opportunities, particularly for eastern Indonesia.

Indonesia’s complex regulatory and legal systems, and many jurisdictional layers, pose significant barriers to doing business. Strong relationships are critical to success.

Despite the challenges, there is a visible Australian business presence in the local market and indicators point to growth opportunities. The entry-into-force of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) on 5 July 2020 provides Australian investors and exporters with further confidence and opportunities to take advantage of our economic complementarities and proximity, as well as the modernisation of sectors such as health, banking and public services, to diversify their businesses.

Australia has pivoted our development program to focus on the critical challenges faced by Indonesia in responding to COVID-19. We are working closely with Indonesia to respond to immediate health and humanitarian needs, support implementation of new and expanded social safety nets, and maintain internal and external trade and markets. As the crisis evolves, we will build on our comprehensive strategic approach.
partnership to assist Indonesia’s recovery, including supporting the institutional, economic and social reforms necessary for inclusive and sustainable growth. The Australian Government provided an estimated AUD 311.7 million in total Official Development Assistance to Indonesia in 2019–20, including an estimated AUD 269 million in bilateral funding managed by DFAT.

Trade, investment, and commercial opportunities and activities

- About 2,500 Australian companies export to Indonesia (ABS), however the number of Australian businesses with a subsidiary in Indonesia is around 250, or 450 when nominee retail and property investments are included.

- Commercial trade priorities include:
  - defending and growing key established categories in agricultural and resource exports, mining and engineering services, and higher education
  - building commercial opportunities aligned with the rise of the digital economy, the skills gap, increased urbanisation and rising consumer wealth, and
  - assisting Australian businesses to succeed and grow across all sectors.

- Indonesia’s increasingly educated and digitally connected youth, combined with its middle class domestic consumption, will continue to drive overall economic growth.

- A range of large sectors in the Indonesian economy—including health, banking and public services—are modernising, and driving change and the need for innovative solutions:
  - these are complemented by the rapid rise of the digital economy characterised by large e-commerce platforms with regional reach, and disruptive digital-first firms in areas such as Fintech and enterprise solutions.

- There are opportunities for Australian business in a range of sectors:
  - these include agribusiness and food, education and training, high value services to resources and infrastructure, defence and aviation, digital technology, and health. The Australian Government is also championing Australian skills and technology across all sectors.

- The Indonesian Government recognises that economic growth aspirations must be supported by reform in education, training and research. With one in three people aged under 18 years—and half its population aged under 30—Indonesia is looking to maximise the benefits of its demographic dividend, including through increased access to globally relevant education and training.

- Two-way investment is modest, even accounting for unmeasured investment through markets such as Singapore and Hong Kong:
  - the Australian Government seeks sophisticated Indonesian investors for the resources and energy, agribusiness and technology sectors.
Trade policy and negotiations

On July 5, the IA-CEPA entered into force. This agreement launches a new chapter of stronger economic relations between Australia and Indonesia, with the Agreement providing better and more certain access to the Indonesian market for Australian exporters.

In addition to the IA-CEPA, Australia and Indonesia are party to the ASEAN-Australia-New Zealand Free Trade Agreement, which came into force in 2012. Indonesia also has bilateral agreements with Japan, Chile and Pakistan, and is party to ASEAN’s free trade agreements with China, Japan, India, South Korea and Hong Kong.

Indonesia is in the process of ratifying trade deals with the European Free Trade Area, Mozambique, and South Korea. It is currently negotiating with the European Union, Iran, Bangladesh and Turkey. It is targeting 12 new FTA negotiations with countries in Africa, the Middle East and the Americas. Indonesia will continue to be active in key global forums such as ASEAN, the World Trade Organization, APEC and G20.

Indonesia is party to the Regional Comprehensive Economic Partnership (RCEP). RCEP is an ASEAN-centred regional free trade agreement that builds on Australia’s relationships with 15 Indo-Pacific countries. These account for almost a third of world population and GDP and more than half of Australia’s two-way trade. At the third RCEP Leaders Summit in Bangkok on 4 November 2019, Prime Minister Morrison and leaders from 14 other RCEP countries announced the conclusion of RCEP text negotiations, and the essential conclusion of market access negotiations.

In June 2020, Ministers from RCEP countries issued a Joint Media Statement reconfirming their commitment to sign the RCEP Agreement in 2020 to serve as a clear signal of unwavering support for the multilateral trading system, regional integration and regional economic development.

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