

## INDONESIA

### Business Conditions Snapshot

- Indonesia is one of the world's fastest growing consumer markets. While the COVID-19 crisis significantly affected the economy in 2020, over the last decade average growth has been steady at around five per cent and GDP reached over US\$1.1 trillion in 2019.
- So far, the COVID-19 impact on the economy has been less severe in Indonesia than in many other emerging markets.
- Growth in per capita GDP – which exceeded US\$4,000 in 2019 – has been driving rapid changes in consumer spending patterns, savings behaviour and capital formation.
- Private consumption growth has been robust over the past few years, contributing around half of total GDP growth. Indonesia has 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 US\$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. New rules for foreign investment are expected in 2021, following enactment of Indonesia's Omnibus Law on Job Creation that will also create new rules for, among other issues, foreign workers, business permits, and labour rights.
- Indonesian economic policy priorities are 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 jobs with a strong focus on economic nationalism. Indonesia's complex regulatory and legal systems—and many jurisdictional layers—pose barriers to doing business. Strong relationships are critical to success.

### Key facts and figures

- Population: 264 million (2018)
- GDP growth: 5.0 per cent (2019)
- GDP: US\$1.11 trillion
- GDP per capita: US\$4,164
- Political system: presidential system
- Two-way trade: A\$17.8 billion (2019)
- Key exports: coal, live animals, crude petroleum, wheat, education and personal travel
- Key imports: crude and refined petroleum, tobacco, monitors & TVs
- Two-way investment: A\$9.1 billion (2019)
- Aid relationship: A\$298.5 million (2019–20) A\$ 311.7million (2019–20 estimate)



# MARKET INSIGHTS

CONNECTING AUSTRALIAN BUSINESS TO THE WORLD

- 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 opportunities to take advantage of our economic complementarities and proximity, as well as the modernisation of sectors such as health and education, to diversify their businesses.
- Australia’s A\$298.5 million annual development program is supporting Indonesia to respond and recover from COVID-19. In October 2020 Australia released its Indonesia COVID-19 Development Response Plan. The two-year initiative details support to address the human, economic and social impacts of COVID-19.
- Australia is working closely with Indonesia to respond to health and humanitarian needs, support implementation of new and expanded social safety nets, and maintain internal and external trade and markets.
- Australia has also committed to help provide safe and effective COVID-19 vaccines, and support health security. This includes an additional \$500 million over three years to support a new regional vaccines initiative.
- In November 2020 Australia and Indonesia finalised an agreement for a \$1.5 billion loan to provide budget financing support and help fund the Indonesian Government’s COVID-19 health and economic recovery programs.

## Trade and Investment Opportunities

- About 2,500 Australian companies export to Indonesia (ABS), however the number of Australian businesses with a subsidiary in Indonesia is around 250.
- Australian small and medium-sized businesses also operate in Indonesia, especially in industries like hospitality and retail.
  - ‘Digital Nomads’, including Australian freelancers and entrepreneurs, are increasingly basing themselves in Bali.
  - This segment is expected to grow as the provincial government pursues this market and the creative economy.
  - This new way of working may not be reflected in our bilateral trade and investment statistics, but helps to build cross-cultural people-to-people links and encourage creative collaboration.
- Commercial trade priorities include defending and growing key established categories in agricultural and resource exports, mining and engineering services, and higher education.
- Other priorities include building commercial opportunities aligned with the rise of the digital economy, and helping Australian businesses to succeed and grow across all sectors.



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- Considerations include factors such as the skills gap, increased urbanisation and rising consumer wealth.
- Indonesia’s increasingly educated and digitally connected young people—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.
  - This is 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 (particularly vocational education), 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 of 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.
  - President Widodo has set an ambitious target of adding 57 million skilled Indonesians to the workforce by 2030, which translates into opportunities for Australian VET providers.
  - COVID-19 economic impact will only drive greater need for skilling, re-skilling and upskilling, particularly in eastern Indonesia.
- COVID-19 has helped provincial governments to place greater emphasis on diversifying their economies, including by developing agriculture and fishery sectors, and being less reliant on services provided by other countries, especially health and medical tourism.
  - Indonesia’s plans to develop mass tourism precincts across the country present opportunities for sustainable tourism, training and education, and the importation of quality Australian produce to support high-value tourism.
- Two-way investment is modest, even accounting for unmeasured investment through regional hubs such as Singapore and Hong Kong.
  - The Australian Government seeks sophisticated Indonesian investors for the resources and energy, agribusiness and technology sectors.



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## Trade Policy and Negotiations

- On 5 July 2020 the IA-CEPA entered into force.
- This agreement launches a new chapter of stronger economic relations between Australia and Indonesia by providing better and more certain access to the Indonesian market for Australian exporters and investors.
- Australian exporters are already using IA-CEPA's lower tariffs to export products to Indonesia, including a range of goods covered by tariff rate quotas. IA-CEPA also creates a number of bilateral committees, including avenues to discuss non-tariff barriers.
- 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 played a key role in developing the Regional Comprehensive Economic Partnership (RCEP), an ASEAN-centred regional free trade agreement that builds on Australia's relationships with 14 Indo-Pacific countries.
- These account for almost a third of the world's population and GDP, and more than half of Australia's two-way trade.
- On 15 November 2020, Prime Minister Morrison and leaders from the other 14 RCEP countries signed the agreement after eight years of negotiations. RCEP will enter into force 60 days after six ASEAN Member States and three non-ASEAN Member States have ratified the agreement.
- 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 a range of trading partners, including 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 (which it will host in 2022).

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*Insight current as at December 2020.*

