



TWO NEIGHBOURS, PARTNERS IN PROSPERITY

**Indonesia-Australia Business Partnership Group
Submission towards the IA-CEPA**

August 2016



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ABBREVIATIONS AND ACRONYMS

| | |
|----------|---|
| AANZFTA | ASEAN-Australia New Zealand Free Trade Agreement |
| ACCC | Australian Competition and Consumer Commission |
| ACCI | Australian Chamber of Commerce and Industry |
| AEC | ASEAN Economic Community |
| AFS | American Field Service |
| AIBC | Australia Indonesia Business Council |
| Ai Group | Australian Industry Group |
| AMTI | Indonesian Tobacco Community Alliance |
| APEC | Asia-Pacific Economic Cooperation |
| APINDO | Employers' Association of Indonesia |
| ASEAN | Association of Southeast Asian Nations |
| ASTP | Australian System of Tariff Preferences |
| ATIGA | ASEAN Trade in Goods Agreement |
| AUD | Australian Dollar |
| B-to-B | Business to Business |
| BI | Bank Indonesia (the Indonesian Central Bank) |
| BKPM | Indonesian Investment Coordinating Board |
| BPOM | Indonesian National Agency for Drug & Food Control |
| BSN | National Standardisation Agency (Indonesia) |
| CEPA | Comprehensive Economic Partnership Agreement |
| DFAT | Australian Department of Foreign Affairs and Trade |
| DNI | Negative Investment List (Indonesia) |
| EMA | Enterprise Migration Agreements |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FIRB | Foreign Investment Review Board (Australia) |
| FTA | Free Trade Agreement |
| G20 | Group of 20, a group of leaders from 20 major economies |
| G-to-G | Government to Government |
| GDP | Gross Domestic Product |



INDONESIA AUSTRALIA
BUSINESS COUNCIL



AiGROUP



AUSTRALIA INDONESIA
BUSINESS COUNCIL



Australian
Chamber of Commerce
and Industry

| | |
|--------------|--|
| GMO | Genetically Modified Organisms |
| GNI | Gross National Income |
| HDPE | High Density Polyethylene |
| HS | Harmonised System Code |
| IABC | Indonesia Australia Business Council |
| IA-BPG | Indonesia Australia Business Partnership Group |
| IA-CEPA | Indonesia Australia Comprehensive Economic Partnership Agreement |
| ICT | Information and Communication Technology |
| IDR | Indonesian Rupiah |
| IELTS | International English Language Testing System |
| IPR | Intellectual Property Rights |
| ISDS | Investor State Dispute Settlement |
| IUP and IUPK | Indonesian Mining Permits |
| KADIN | Indonesian Chamber of Commerce and Industry |
| KITAS | Kartu Izin Tinggal Terbatas (Limited Stay Permit Card) (Indonesia) |
| KPPU | Indonesian Business Competition Oversight Commission |
| METS | Mining Equipment, Technology and Services |
| ML Number | A code or registration number issued by BPOM for all imported food products in Indonesia |
| MNP | Movement of Natural Persons |
| MSME | Micro, Small and Medium-sized Enterprise |
| MUI | Indonesian Council of Ulama |
| OECD | The Organisation for Economic Co-operation and Development |
| OJK | Indonesia's Financial Services Authority |
| PPP | Public Private Partnership |
| PwC | PricewaterhouseCoopers |
| RCEP | Regional Comprehensive Economic Partnership |
| SA | Standards Australia |
| SEA | Southeast Asia |
| SEZ | Special Economic Zone (Indonesia) |
| SME | Small and Medium Enterprise |
| SMK | Indonesian Vocational High School |
| SNI | Indonesian National Standards |
| SPS | Sanitary and Phytosanitary |



| | |
|---------|---|
| SVLK | Indonesian Timber Legality Verification System |
| STRACAP | Standards, Technical Regulations and Conformity Assessment Procedures |
| TAFE | Technical and Further Education (Australia) |
| TDA | TAFE Directors Australia |
| TPP | Trans-Pacific Partnership |
| TRIP | Trade Related Aspects of Intellectual Property Rights |
| UK | United Kingdom |
| US | United States |
| VET | Vocational Education and Training |
| WTO | World Trade Organization |



FOREWORD

Indonesia. Australia. Two very different neighbours. Culturally, socially, economically, historically ... **different**. But in terms of resources, skills and assets, the two neighbours have such complementarity and such compatible advantages that can be pressed into service to deliver mutual benefits. With the slowing of global economic growth, and the economic transitions of both economies, as well as new opportunities presented by new megatrends in global trade and investment, both countries need to look to each other to make the most of the opportunities and jointly create new ones. Together, they are capable of creating an engine for growth of trade and investment with ASEAN, greater Asia and the world beyond. Together, they can be a shining example of new models of economic partnership.

Those are the obvious opportunities for an Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) to address, to the fullest extent possible. The IA-CEPA must create an environment to enable business from Indonesia and Australia to trade, invest and cooperate. If business does well, it also has the power to do good by creating new jobs and new wealth and by underpinning inclusive economic growth and higher standards of living. The IA-CEPA must embrace innovation to create a special and unique agreement between Indonesia and Australia. It must create an environment of preferential treatment for investors, exporters and business collaborators while empowering the vulnerable in both countries.

In doing so, a good place to begin is to identify opportunities for trade, investment and collaboration and then to ask why tariffs or barriers exist between the two countries. What would be the impact if there were none? Can the long list be erased over specified and realistic timeframes? How can exporters of goods and services be encouraged to invest in-market, to raise local standards, build capacity and levels of security in sector after sector? How can we avoid any future unintended interventions and impacts? What kind of protection, adjustments and capacity-building need to be implemented for the weak and vulnerable sectors? Governments are requested to approach these matters on a scientific basis.

The IA-CEPA must be opportunities-driven, seeking to create a bilateral environment in which business can thrive. By also recognising and responding to the strengths and weaknesses of each country's economic assets, IA-CEPA can achieve a fair balance of risk and reward for all parties, in both countries. Recognising the different stages of development and capacities of business in each economy, IA-CEPA will include capacity-building that will help to address imbalances and



enable adjustment. Capacity-building and preferential arrangements tailored to the opportunities and impediments in each country, across economies and by sector will facilitate business engagement. Without such tailored approaches to overcoming market failure and removing impediments, it is unlikely that the current level of business engagement will change significantly.

To achieve such a unique CEPA, both sides have to approach the negotiations with generosity and goodwill. The result will boost levels of trust and confidence, essential for continued success. With both large businesses and SMEs engaged, real people-to-people contact will change the relationship between the two neighbours.

The IA-BPG stands ready to continue assisting the negotiators and both governments during negotiation and implementation of the IA-CEPA. The following pages detail the features that the IA-BPG is advocating for the IA-CEPA.

The IA-BPG commends this position paper to the Indonesian Minister of Trade Enggartiasto Lukita and Australian Minister of Trade, Tourism and Investment Steven Ciobo. The paper was presented to both ministers at a joint ministerial meeting in Jakarta on 2nd August 2016.



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EXECUTIVE SUMMARY

The Indonesia-Australia Business Partnership Group (IA-BPG) welcomes and supports the creation of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). IA-BPG strongly believes that IA-CEPA should be a unique agreement, with a unique approach. It should avoid being a routine negotiation framed from the perspective of two opposing parties making concessions to reach a final agreement. It should turn traditional approaches to Free Trade Agreements (FTAs) on their head, and begin by identifying areas of potential and opportunity – it should seek to develop momentum by creating a ‘buzz’ generated from early outcomes, both in trade liberalisation and in initiatives designed to build the economic relationship. It should seek to deliver fast, demonstrable benefits and create its own momentum, recognition and support from businesses in both economies. It should implement President Widodo’s commitment to cut government regulations by 50% and take a common sense approach to trade and investment issues. It should be dynamic and responsive to the needs of business and the demands of the market. It should boldly go where no FTA has gone before.

As its name suggests, this bilateral agreement is expected to be a “21st Century agreement” which comprehensively covers a wide range of issues including and beyond trade and investment. The agreement should seek to build extensive links between the business sectors of both countries – to create closer relationships, increased trade and mutual prosperity. In a joint statement in March 2016, former Trade Minister Thomas Lembong and Minister for Trade, Tourism and Investment Steven Ciobo reiterated the bilateral support for a CEPA stating that “a successful Agreement would serve as a new platform toward a modern and dynamic economic partnership that reflects the strong bonds between the two countries”.

In going beyond traditional FTAs, the features of the IA-CEPA should include progressive removal of all trade barriers and facilitation of two-way trade in goods and services, plus investment. Technical and regulatory barriers to trade should be removed as much as possible while inhibitors to two-way investment should be eliminated. Rules and standards, including mutual recognition or harmonisation of qualifications should be aligned and simplified before being approved and implemented by both countries. Movement of skilled persons should be facilitated to meet market demand. Market failure should be overcome by providing information on market opportunities, on doing business in each economy and facilitation of business-to-business contact. Cross-border cooperation to access global value chains is a key opportunity and incentive for business. And, last but not least, the importance of capacity building, including training and improving governmental procedures, is highlighted as a key element for success.



As the nature of the global and regional economy is changing, Indonesia and Australia have undergone substantial economic transformations. Australia is transforming from mining investment and extraction, plus agriculture and manufacturing, to a more diverse economy underpinned by services, knowledge and technology. Australia's economy is now geared more toward global value chains, having been globally competitive in producing primary products, in niche manufactures, in key services and in education and research. As these changes unfold, however, the nation faces challenges in balancing development, especially in the northern region. More critically, Australia's population is ageing, which changes the structure and nature of the workforce.

Indonesia, on the other hand, is moving away from relying on primary industries towards manufacturing and services, more so because of the effects of the demographic dividend and urbanisation. This transformation, however, requires substantial investments and exports, rather than relying on domestic consumption. This, in turn, needs significant change in the public and private sector, at both the national and regional level. In that context, exports and economic growth will be driven by investments that are needed to build connectivity in the archipelago through modern infrastructure, to develop human capital through improvement in health and education, and to spark innovation and creativity through technology development.

The two nations have very complementary needs and strengths and can achieve much more for their economies and peoples by working closely together than separately.

While the vision of increased prosperity through bilateral trade is shared by the governments and business communities of both countries, IA-BPG has identified a number of impediments which hamper the achievement of that goal. This report, based on an analysis of the existing economic relationship between Australia and Indonesia, strongly supports the conclusion that these two economies are complementary in many respects, that there are vast areas of potential for economic partnership, and that the two neighbouring countries can truly succeed together in a global market.

Beyond identifying impediments to greater economic engagement, the report identifies particular sectors where significant opportunities for economic growth may exist, and includes a number of recommendations for steps which can be taken towards achieving the stated goal of becoming partners in prosperity.

The IA-BPG was first formed in 2012, and compiled a report on the potential benefits of an IA-CEPA and included a set of recommendations. In 2016, governments of both countries restated their support for a bilateral agreement which addresses the unique economic relationship between the two neighbouring countries. The IA-BPG was reconstituted and discussions and consultations towards the IA-CEPA were formally reactivated. The IA-BPG process of broad-based consultations with businesses and member associations through individual interviews, workshops and written submissions has been hailed as the 'gold standard' for private sector engagement in the preliminary stages of a bilateral trade negotiation of this type. Following on from this solid base of stakeholder engagement, the group reiterates that the IA-CEPA should be a dynamic agreement with in-built mechanisms to monitor and adapt its performance. An ongoing business advisory and consultation mechanism should be established to ensure continued business-to-business engagement and broader continuing stakeholder engagement.



ISSUES AND IMPEDIMENTS TO TRADE AND INVESTMENT

Cooperation between the business sectors of the two countries continues to be hampered by remaining tariffs, trade regulations and procedures, technical barriers to trade, trade restrictions (including import quotas and licensing), barriers to movement of people, and restrictions on foreign direct investment. All of these substantial impediments must be addressed by IA-CEPA. Building upon the provisions and schedules in AANZFTA, and adapting provisions of other trade agreements, IA-CEPA should aim to remove remaining tariffs and barriers to trade for all goods and services as soon as possible and make a commitment to not impose further tariffs or barriers. Although necessary to protect consumers, trade regulations should facilitate rather than hinder trade, and they should provide clarity and certainty to business on technical requirements and costs.

Similarly, in tackling these impediments, while recognising that standards may be applied to maintain product quality or public safety, IA-CEPA must strive for a clear framework for aligning standards, qualifications and requirements. Additionally, a robust framework to address trade restrictions is necessary to achieve beneficial outcomes, ensure consumer protection and to initiate capacity building for skills and governance.

In an agreement such as this, people are key to unlocking the potential and complementarities in the two economies. Therefore, clarity, simplicity and transparency, to ensure that skills and labour demands are able to be met in a timely and efficient way, are essential. Finally, governments of both countries should support and facilitate business to target and activate investments that create the most value for the economy – i.e. those that are able to generate employment and stimulate productivity.

In addition, achieving the desired goals and outcomes of IA-CEPA may require serious consideration from the wider public and private sectors over more subtle impediments. First, *limited communication and exchange of information* has hampered businesses in pursuing opportunities, and this will require a common platform for accessing trade information and discussing policies, as well as capacity building for SMEs to tap into these resources. Second, *financing and access to capital* is critical for the cooperation as both countries rely on foreign investment, and to facilitate this it is necessary for the regulators to synchronise the rules and promote simultaneous operation for financial services companies and for the companies to link seamlessly and connect to business.

Third, *gaps in infrastructure and logistics* are glaring, which will require significant investments – including through Public Private Partnerships (PPP), streamlining customs protocols, and connecting the transportation network of both countries. Fourth, *fostering small- and medium-enterprises* is imperative for a successful cooperation, and this will entail educating SMEs on the benefits of trade liberalisation, heeding their concerns, and promoting participation in bilateral trade and global value chains.



STRATEGIC MODELS FOR PARTNERSHIP

In facilitating cooperation, IA-BPG aspires to the creation of integrated industries that are responsive to global markets, which utilise robust two-way investment. They should be strengthened by knowledge-sharing and technology collaboration, more targeted Aid for Trade, and link services sector investments with capacity building. Hurdles remain, however, and overcoming them requires, first, *preferential treatment*, where IA-CEPA provides each country with preferential status for trade and investment, which operates over and above other preferential arrangements. Second, taking advantage of *Indonesia's Special Economic Zones (SEZ)*, where investments and collaborations are unrestricted by regulations applied elsewhere.

IA-BPG identified six specific sectors where significant potential exists for cross-border economic engagement and where benefits may be realised within a relatively rapid time-frame.

1. **Expanding tourism and enhancing hospitality** which will require liberalising visa requirements and movement of natural persons, as well as enhanced skills and training through skills exchange programs.
2. **Securing domestic food availability and participating in global food supply** through development of joint, integrated, two-way supply chains, facilitating bilateral preferential treatment, implementing joint research and capacity-building and tackling issues of differing food standards.
3. **Developing human capital through cooperation in technical and advanced education and training** to be achieved by opening the education sector to foreign investment, encouraging greater university engagement in joint research and degree programs, and facilitating MNP for education purposes.
4. **Improving health and quality of life by encouraging exchange programs** in healthcare, facilitating investment and movement of people in the healthcare industry, aligning qualifications and capacity building for healthcare professionals.
5. **Accelerating connectivity in digital economy, e-commerce and creative industry** by emphasising free flow of information while respecting security concerns and creating an environment that supports free-flow of investment in e-commerce and technology in the digital sector, especially for SME start-ups in this sector.
6. **Facilitating opportunities in infrastructure and energy** by removing restrictions, easing regulations on foreign workers and encouraging Public-Private Partnerships. Significant opportunities are presented by developing innovations in renewable energy sources and global energy integration systems to supply power to the Indonesian grid and regional communities which lack connectivity to reliable sources of electricity. Around a quarter of Indonesia's population, over 60 million people, currently do not have access to electricity.



RECOMMENDATIONS FOR IA-CEPA NEGOTIATIONS

CROSS-CUTTING MEASURES TO OVERCOME IMPEDIMENTS

Recognising that Australia and Indonesia are already partners in the AANZFTA free trade agreement along with current negotiations for RCEP and Indonesia's desire to join the TPP, the IA-BPG partners noticed a number of common themes which if considered appropriately, could address concerns and opportunities for multiple sectors through cross-cutting actions or initiatives, to enhance our bilateral relationship.

The recommendations the IA-BPG has identified in line with these cross-cutting themes include:

1. Accelerate tariff reductions to be faster than the time frames set in AANZFTA.
2. Accelerate removal of product quotas.
3. Apply consistent capital thresholds for all business.
4. Progressively remove limits to equity holdings in listed or private businesses held by nationals or companies from the IA-CEPA partners provided this meets the national interest test as overseen by the foreign investment review boards or equivalent against transparent criteria.
5. Allow full and free movement of skilled people across our common border.
6. Provide mutual recognition of educational and skill levels against international standards.
7. Encourage improved mutual cultural and linguistic understanding through wider inclusion in school curricula.
8. To the extent possible, aim measures at facilitating cooperation and collaboration to access global value chains and service provision.
9. Build a harmonised, borderless system for conduct and regulation of e-commerce based on global standards.
10. Remove foreign currency policies that inhibit business from fully engaging with global markets and from conducting cross-border AUD-IDR transactions except for monetary stability measures.



11. Create a consistent set of fees and levies domestically applied to imported goods and services that are WTO compliant and transparent.
12. Foster closer cooperation in skills development through education, training and professional development.
13. Build and strengthen administrative and regulatory institutions and their understanding of each other's policies, regulations and negotiation and dispute resolution norms through better Indonesia-Australia linkages and capacity-building.
14. Introduce strong, business-facilitative competition policy to encourage development of markets, efficient allocation of resources and markets that participants trust.
15. Provide information on business opportunities and on doing business in each economy, and facilitate business-to-business linkages and supply chain development.
16. Tailor development assistance to facilitate these recommendations and provide the capacity for Indonesia to implement rapid economic development.
17. Encourage greater B-to-B engagement in both countries. Chambers of Commerce and Business Councils could be the drivers of this by encouraging their members to foster closer relationships with counterparts.
18. Engage a broader set of stakeholders, beyond just business communities, including media, civil society, universities and local government institutions to generate awareness and involvement in IA-CEPA.
19. Encourage ongoing review and liberalisation of the Negative Investment List in Indonesia and further liberalisation of access to the services sector in Australia.
20. Foster *inclusive* economic growth, as a principle of IA-CEPA, which contributes to sustained poverty reduction, ensures equality of opportunity for regional areas, women and minority groups – and is essential for a successful growth strategy.
21. Encourage digitisation of trade-related practices and increased trust in the online environment through an e-commerce chapter.
22. Establish a framework of on-going monitoring to evaluate and improve the performance of the IA-CEPA as a dynamic and growing process – this could include the establishment of an on-going IA-BPG.

RECOMMENDATIONS BY TOPIC

1. ECONOMIC COOPERATION

a. *Exchange of Information*

- i. Promote transparent and seamless regulatory processes based on international standards with a better application of the rule of law and a well-resourced and independent regulatory structure.
- ii. Develop accessible and transparent information about regulations, standards and certification required for market entry and how these can be met.
- iii. Provide information to investors in Australia and Indonesia to help make them more aware of the direct and indirect business benefits of investing in order to drive greater investment relations.



- iv. Establish an amalgam of national, regional and local government initiatives, coupled with private sector contact, to provide information on markets and doing business, and encourage market access.
- v. Develop sectoral direct communication platforms to bridge the information and interaction gap between the two countries.
- vi. Disseminate information and raise awareness about the IA-CEPA within the SME community to encourage greater engagement of SMEs in both countries.

b. Capacity Building

- i. Significantly increase capacity in vocational education and training (VET) in Indonesia through expanding and developing Vocational High School (SMKs) and polytechnic networks, including more polytechnic lecturers, building competency standards, industry engagement, VET quality, international VET partnerships and staff exchange and creating centres of excellence in each of Indonesia's major cities.
- ii. Australia should consider not only technical assistance at a scientific level but also deeper engagement by actual primary producers to assist in the development of Indonesia's agricultural industries to meet the standards required for entry to the Australian system.
- iii. Promote education cooperation, which includes standards on education curricula, teacher competencies, research and development agenda, and internship opportunities.
- iv. Promote cooperation to boost mutual competencies in branding, product innovation, research and development.
- v. Provide greater support to business people and public servants of the two countries to learn Bahasa Indonesia – and vice versa for those in Indonesia to learn English.
- vi. Include a program that establishes a capacity-building and export facilitation activity to support exporters of Indonesian agricultural products.
- vii. Ongoing support for improvements to economic governance in Indonesia.
- viii. Develop a business capacity building program about FTAs and how to utilise them in conjunction with exchange of information about business opportunities.
- ix. Assist businesses to understand the existing available mechanisms for international B-to-B dispute resolution.

c. Trade Facilitation

- i. Centralise approvals for the exploitation of natural resources in Indonesia by the national government or competent regional authority using consistent and transparent decision criteria.
- ii. Encourage governments to support micro-economic reform designed to improve the productivity and competitiveness of industry.
- iii. Establish customs pre-inspection facilities in strategic locations to further benefit bilateral supply chains and to avoid inefficiency with the aim of providing reciprocal service levels.
- iv. Establish a joint Industry-Government monitoring and consultation mechanism regarding new or enhanced food regulations.



- v. Encourage greater collaboration between quarantine agencies of both countries to avoid double quarantine processes.
- vi. Emphasise cooperation and a sensible approach to health, safety and quality standards across the partner economies to support trade.
- vii. Propose the establishment of sectoral research centres within Indonesian universities, and research collaborations with Australian universities.
- viii. Establish a Trade Facilitation Centre of Excellence to address impediments to trade in the context of both bilateral and multilateral relations.
- ix. Remove barriers to infrastructure cooperation between businesses in Indonesia and Australia.
- x. Encourage reform of cabotage regulations in Australia and Indonesia for sea and air to reduce costs to businesses, consumers and facilitate greater trade.

2. TRADE IN GOODS

- i. Further reduce or eliminate tariffs to offer better prices and improve consumer choice and reassurance of product availability.
- ii. Accelerate the tariff reduction schedule beyond AANZFTA in the IA-CEPA for freer trade cooperation, especially for Indonesian tariff lines on agricultural products and Australian tariff lines on textiles and textile products.
- iii. Environmental goods and services should be free of tariff and trade restrictions.
- iv. Technical requirements and import procedures should be in accordance with international best practice, be transparent and not act as non-tariff barriers to trade.
- v. Harmonise and/or recognise standards and certification measures in IA-CEPA such as health, safety and quality standards, SVLK (the Indonesian Timber Legality Verification System), and Halal certification across the partner economies.
- vi. Create duty-free, quota-free, two-way access for food products and agricultural products.
- vii. Remove all barriers and restrictive regulations, on:
 - a. Goods imports that are not related to health and safety
 - b. Export activities
 - c. The implementation of caps or quotas on import permits
- viii. Facilitate preferential treatment between both countries for trade in food products.
- ix. Adopt similar Codex Alimentarius standards as much as possible to tackle issues of differing standards.
- x. Expand the red meat and cattle partnership, and apply a similar approach to other sectors of mutual interest such as grains, seafood and horticultural products.
- xi. Support the Rules of Origin and procedures system used within AANZFTA (ASEAN supported) inclusive of the First Protocol amendments but also seek to simplify administration with the objective to facilitate ease of use and economies of scale for business, in particular SMEs.



3. TRADE IN SERVICES

- i. Establish approaches which are in accordance with international best practices, transparent and do not act as restrictions to services.
- ii. Facilitate greater access to the services sectors of both countries.
- iii. Establish more flexible arrangements on commercial presence of foreign services providers.
- iv. Remove any restrictions on data flows and reconsider restrictions on server locations.
- v. Progressively remove the service-related barriers in the following areas:
 - a. Professional practice and establishment of service businesses
 - b. Foreign investment and service provision
 - c. Natural resource development
- vi. The IA-BPG recommends ongoing review and liberalisation of the Negative Investment List in Indonesia and further liberalisation of access to the services sector in Australia.
- vii. Restrictions on movement of people are another major impediment to growth in services trade and investment. As this position paper advocates elsewhere, easier movement of people is a key to the success of the IA-CEPA.

4. INVESTMENT

- i. Relaxing Indonesia's FDI regulations is seen as key to knowledge and technology transfer.
- ii. Australian Foreign Investment Review Board (FIRB) thresholds for review of investments in agriculture should be similar to the thresholds applied for investments from other countries, such as the US.
- iii. FIRB thresholds for other classes of investment should similarly be benchmarked against those in other trade agreements.
- iv. Progressively remove or lift all two-way barriers and restrictions to investment in the following:
 - a. Investment in land, production facilities such as feedlots, processing facilities such as abattoirs, flour mills, food processing and consumer goods manufacturing, distribution and marketing chains
 - b. Export restrictions on products
 - c. The establishment of investment in educational institutions and the delivery of education (vocational and higher education) for people involved in the complete food supply chain (paddock to plate)
 - d. Foreign equity and service provision
 - e. The establishment of natural resource development services industry
- v. Stakeholders have identified the following sectors as being in need of foreign investment and capacity-building, which presents significant opportunities for Australian investors. IA-CEPA should include provisions for all levels of government to



work with business to facilitate the necessary exchange of information to help match investors with potential business partners in sectors such as, but not limited to:

- a. Coffee
- b. Sugar
- c. Cotton
- d. Cattle breeding
- e. Palm Oil
- f. Fisheries
- g. Grains
- h. Cocoa
- i. Minerals processing facilities (smelters, refineries)
- j. Coal Bed Methane
- k. Energy efficient lighting
- l. Digital economy and creative industry

IA-BPG recommends that the model of the red meat and cattle partnership could be deployed to assist industry engagement to advance mutual cooperation in each of these sectors.

- vi. Encourage creation of an Indonesia-Australia PPP Centre, which would help fulfil Indonesia's need for high quality design, structuring and documentation of projects on offer. Such a centre working closely with BKPM would streamline investment and workflow in this crucial sector.
- vii. Find mechanisms to ensure Australian involvement in PPP projects without having to go through international competitive tender requirements. G-to-G platforms such as an MoU on a specific infrastructure project should be established.
- viii. Remain open to accepting unsolicited bids for regional development and infrastructure projects from the private sector willing to invest in projects they have identified unilaterally.
- ix. Open energy sector to foreign investment in all classes of infrastructure.
- x. Open up opportunities for investment in hospitals and healthcare facilities.

5. MOVEMENT OF PEOPLE

- i. Mutual recognition of qualifications and certification by both countries to facilitate trade in services and movement of skilled workers.
- ii. Encourage freer movement of skilled people between the two countries. Encourage employment of skilled Indonesians and Australians in both countries.
- iii. Encourage alternative solutions for short-term migrant workers with limited English proficiency, for example by providing "forepersons with a high-level of English supervising work groups" similar to a system which operates in New Zealand for fruit pickers and packers.
- iv. Remove two-way barriers for the movement of skilled workers in the following areas:
 - a. Production agriculture, science, food processing and supply chain logistics
 - b. Agricultural sector to allow for training and working in both economies to facilitate skills development and transfer
 - c. Standard setting, certification and assessment



- d. Mining, energy, engineering and environmental management personnel
 - e. Skills development, training and technology transfer in the mining, energy, engineering and environmental management fields
 - f. Technical, vocational and higher education and training, including English language teachers.
- v. Mutual skills recognition, including developing training between professional associations or vocational schools and the possibility of establishing a joint committee or institution to facilitate initiatives in the field of education.
 - vi. Simplification of work permits for lecturers, teachers and researchers, and more relaxed visa provisions for students.
 - vii. Create a special visa category under IA-CEPA to facilitate service sector movement of skilled people.
 - viii. Implement more relaxed restrictions on temporary entry and work permits for professional and skilled personnel between Australia and Indonesia and vice versa.
 - ix. Establish visa regulations in the tourism sector to attract Australians to invest, reside, retire or take advantage of aged care facilities to be developed in Indonesia.
 - x. Harmonise arrangements for business visas for both Australia and Indonesia, including Visa on Arrival for Indonesians seeking business visas equivalent to that offered by Indonesia to Australian travellers, and easy-to-obtain multi-entry business visas for Australians entering Indonesia.
 - xi. Provide greater flexibility of visa options to facilitate greater tourism between both countries. Note: Indonesia has applied 30-day visa-free entry mechanism for Australians and Australia has the applied option to apply for a three-year multi-entry visitor visa. However, more can be achieved.
 - xii. Further develop the skills and training offered through the Skills Exchange program between Indonesia and Australia to develop human resources and skilled hospitality personnel in tourism sector.

6. E-COMMERCE

- i. Adopt trade rules that foster confidence in the on-line environment and limit the ability to put up roadblocks to such trade in the future. In particular the IA-CEPA will need to adopt rules that enable information flows and reconsider prohibition on data localisation, allow the cross-border provision of services, encourage the growth of online businesses, make it easy for SMEs and users to get online, and enable the usage of simple online payment systems.
- ii. Building a harmonised, borderless system for conduct and regulation of e-commerce
- iii. Consider training and capacity-building requirements for both governments and business to utilise e-commerce.
- iv. As a principle, the IA-CEPA should support the free-flow of information while respecting personal information security concerns as much as possible. Governments should not seek to create treaty terms where contract law is sufficient.



- v. Create an environment that supports industries in the digital economy sector, especially SMEs, by allowing freer flow of investment and people and progressively removing any remaining foreign ownership restrictions in digital sector.
- vi. Encourage a joint working group in establishing an Indonesia Australia digital economy sectoral convergence.

7. EDUCATION

The IA-CEPA and allied projects should include measures to encourage universities to work more closely together in teaching, learning and research, including joint degree programs and joint research activities and centres. As well, the IA-CEPA should include:

- i. Provisions for opening the university sector for foreign investments.
- ii. Provisions for opening the training sector to allow for resourcing of much-increased school to university transition programs.
- iii. Provisions for cooperation and capacity-building in the VET sector to enable it to better train skilled workers to international standards.
- iv. Provisions for movement of skilled people to undertake research and conduct teaching.

8. OPPORTUNITIES FOR EARLY OUTCOMES

Refocusing Australia's aid effort to advance the following series of projects would build confidence in, and progress, the aims of the IA-CEPA while negotiations are conducted. Examples of such projects are listed below:

- i. Collaborations on the opportunities and challenges of electricity generation and supply including cross border electricity supply and markets.
- ii. Collaborative efforts to improve the opportunities in both countries for global tourism.
- iii. Banking and financial services opportunities and challenges including best practice digital economy issues.
- iv. Improving transport links between Northern Australia and Indonesia.
- v. Language and cultural orientation programs.
- vi. Open two-way Customs Pre-Inspection Services.
- vii. Establish a Trade Facilitation Centre of Excellence.
- viii. A Mining Equipment Technology and Services (METS) sector working group.
- ix. Indonesia-Australia Centre of Excellence for the grains industry.
- x. Revised visa categories to improve two way movement of people in all categories.
- xi. Develop a 'Food Plan 2030'.
- xii. Establish an Indonesia-Australia Agribusiness Leaders Network.
- xiii. Implement a specific IA-CEPA Standards Harmonisation Action Plan.
- xiv. A PPP Centre to facilitate bilateral infrastructure projects.



Chapter 1

BUSINESS EXPECTATIONS FOR A SPECIAL AND UNIQUE AGREEMENT

CONTINUING TO BUILD UPON A STRONG FOUNDATION

➤ **BRINGING BUSINESS TOGETHER**

In March 2016, the Indonesian and Australian governments formally reactivated discussions to establish an Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). With the reactivation, the Indonesia-Australia Business Partnership Group (IA-BPG) was also reconstituted as an advisory body to provide business insight on issues relating to the framing of such an agreement. In 2012, the membership of IA-BPG consisted of the Indonesian Chamber of Commerce and Industry (KADIN), the Australian Chamber of Commerce and Industry (ACCI), Indonesia-Australia Business Council (IABC), and Australia-Indonesia Business Council (AIBC). In 2016, the IA-BPG expanded its membership to include the Employers' Association of Indonesia (APINDO) and the Australian Industry Group (Ai Group) to ensure an even broader representation of business stakeholders in the consultation process.

The role of the IA-BPG is to:

- examine the current trade, investment and economic cooperation profile between the two countries;
- identify economy-wide and sectoral trade and investment opportunities in both countries, as well as how economic cooperation could narrow the development gap between the two countries;
- identify impediments to increasing two-way trade and investment, and to developing greater economic interaction, including the scope for both countries to cooperate to facilitate access to third markets, and participation in global value chains;
- assess ways in which increased trade and investment will enhance inclusive and sustainable economic growth, and enable these benefits to be distributed widely through both economies, including to small and medium business and regional areas;



- propose mechanisms and actions to eliminate or mitigate impediments, and facilitate widespread distribution of the benefits of enhanced economic integration;
- make recommendations on the content of the IA-CEPA and its negotiation and implementation; and
- strengthen the understanding and partnership between Indonesian and Australian business communities and contribute to the development of an effective private and public sector dialogue.

In preparing this position paper, the IA-BPG, through its member organisations, has consulted extensively with the business sector in both countries. IA-BPG hopes that it has laid the groundwork for ongoing business engagement as negotiations on the IA-CEPA progress, and most importantly, for much greater bilateral trade, investment and business collaboration in the future.

➤ **BEYOND BUSINESS AS USUAL**

From the outset, it was always intended that the IA-CEPA should go well beyond a traditional free trade agreement (FTA), and that it should constitute a comprehensive strategic partnership encompassing trade in goods and services, investment, economic cooperation (including capacity building) and cross-cutting issues such as movement of natural persons. It is also the opinion of the IA-BPG that the negotiations should address a number of other important and substantive issues such as electronic commerce, competition policy, government procurement, intellectual property rights, environment and labour, as well as institutional and framework provisions (transparency, general provisions and exceptions, institutional provisions, dispute settlement procedures and final provisions).

ACCI, KADIN, APINDO, Ai Group, IABC and AIBC support the concept and vision of the IA-CEPA. The business sector believes that there are many opportunities for partnerships that can be developed between Indonesia and Australia and therefore create the potential for a truly comprehensive agreement which encompasses all aspects of the economic relationship between the two countries, and goes far beyond what has been achieved in other FTAs to date. The IA-CEPA represents a unique opportunity to create a strategic partnership between two nations; aimed at generating joint prosperity and success in the global economy.

Importantly, the IA-BPG believes that negotiations should be opportunities-driven, seeking to identify areas of economic potential, and agreeing on measures that will facilitate business to maximise opportunities by working together. A key theme of the agreement, and its implementation, will be facilitation of business linkages. Hence, just as the IA-CEPA will be different to and more far-reaching than traditional trade agreements, so too should the negotiations. The usual 'defensive' and 'offensive' modes of negotiation should be supplanted by seeking to maximise opportunities.

The IA-BPG is heartened to note that a similar sentiment is expressed by the leadership of the two countries. The joint statement by both governments in March 2016 underlines the strong political will to go beyond traditional free trade agreements to develop a 21st Century agreement. The IA-CEPA will be a platform for a new, visionary partnership that is broader, more advanced, modern, and facilitative than a traditional FTA in all aspects of the economic relationship, as well as capacity building. The former Minister of Trade of the Republic of



Indonesia, Thomas Lembong and the Minister of Trade, Tourism and Investment of Australia, Steven Ciobo MP agreed that IA-CEPA will proceed on the basis of the core principles that:

- both sides will strive to ensure the final agreement is high quality and as comprehensive as possible, covering trade in goods and services, investment and economic cooperation, and that it is balanced and delivers mutual benefits; and
- the final agreement should build upon the existing multilateral and regional agreements as well as negotiations between Indonesia and Australia.¹

The two ministers further stated that “a successful Agreement would serve as a new platform toward a modern and dynamic economic partnership that reflects the strong bonds between the two countries.”

➤ **GOING BEYOND OTHER AGREEMENTS**

Indonesia and Australia are parties to a number of agreements and economic partnerships that reflect a trend toward a freer trade environment and global economic integration. Indonesia and Australia are parties to the ASEAN-Australia New Zealand Free Trade Agreement (AANZFTA) which provides the basis for more liberalised trade between Indonesia and Australia, as well as the rest of ASEAN and New Zealand. Australia provides preferential access to goods from Indonesia, as a developing country, through Australian System of Tariff Preferences (ASTP). ASTP is currently under review and has potential to be enhanced for Indonesia. Despite its availability this appears to remain underutilised and needs to be promoted more in Indonesia. It has potential for Indonesian exporters to make greater use of it.

ASEAN is also heading towards a more liberalised and integrated economy. The ASEAN Economic Community (AEC) is founded on four pillars contained in the AEC blueprint of achieving a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy by 2015.

More broadly, since the initial discussions on IA-CEPA in 2012, two further ‘mega-regional’ trade agreements have emerged. The Regional Comprehensive Economic Partnership (RCEP) is an economic partnership between the ASEAN bloc and its Plus-Six partners with which it has Free Trade Agreements, namely: China, Japan, South Korea, Australia, New Zealand, and India. It focuses on integrating the economies of the ASEAN-Plus-Six members, and, as an ASEAN-led regional framework, is guided by ‘the ASEAN Way’ which is more consensus-oriented, accommodative and flexible in achieving common goals. RCEP is currently under active negotiation and is expected to be completed in 2017. IA-CEPA negotiations should not wait for RCEP outcomes or be overly guided by them, as the outcomes are uncertain and in any case are unlikely to be as progressive as both governments and IA-BPG wish for IA-CEPA.

The Trans-Pacific Partnership (TPP), on the other hand, is a “21st century trade agreement” involving 12 developed and developing country members on the Pacific Rim. Negotiations were concluded in November 2015 and member countries are undergoing their internal ratification processes. Australia is a member of TPP and Indonesia has announced its ambition to join the partnership.

¹ Joint Statement by the Minister of Trade of the Republic of Indonesia and the Minister of Trade and Investment of Australia on the Reactivation of negotiations on and Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), Canberra, 16 March 2016.



Further, Asia-Pacific Economic Cooperation (APEC) is a forum of 21 Pacific Rim member economies which promotes free trade and economic reform throughout the Asia-Pacific region, and includes both Indonesia and Australia as members. Both countries are also members of the World Trade Organisation (WTO) and the G20.

Each of these global and regional frameworks provides important references for shaping and developing IA-CEPA. They also create the challenge for IA-CEPA to go beyond, what is already available under existing and potential agreements.

The concept of the IA-CEPA is undoubtedly complementary to the AEC, ASEAN, AANZFTA, WTO and APEC agendas. The final agreement must also be complementary to, and support, these agreements. The characteristics of the AEC provide benchmarks for both the AANZFTA and IA-CEPA to provide significant opportunities for the IA-CEPA to leverage the rapid progress towards ASEAN economic integration.

➤ **FOCUS ON SERVICES**

Services are going to play an increasingly important role in both the Indonesian and Australian economies as they transform. Services is both a key sector, encompassing many industry classifications, which is vital to all facets of the two economies, enabling competitiveness and transfer of knowledge and technology. Given the growing role of services in the Indonesian and Australian economies in enabling other sectors, in bilateral trade and investment, and in accessing global value chains, services need particular attention in the IA-CEPA.

For Indonesia, services will be vital to meeting the needs of the growing middle class, in supporting efficient primary and secondary industry, in enabling participation in global supply chains, and in transforming and growing the economy. For Australia, services are similarly important domestically, while they are playing an increasingly important role in exports.

Despite their importance domestically, and in bilateral trade and global supply chains, services are unnecessarily restricted by both Indonesia and Australia. This harms both economies. In the following chapter, this position paper identifies specific barriers to services trade and investment and recommendations to overcome them.

The Indonesia Services Dialogue Council Policy Recommendation 2015 report² sets out the implications of restrictions on Logistic Services, Distribution Services, Energy Services, ICT Services and e-Commerce. The Policy Recommendations report provides an excellent prescription for policy change in these sectors as well as others. In particular the report recommends review of the Negative Investment List to unlock the sub-optimal growth of the services sector.

The Negative Investment List is also the most often cited regulatory instrument of concern to foreign investors in services. While the list was extensively modified earlier in 2016 to make some sectors more open to majority foreign investment, many sectors remain effectively closed, or significantly restricted to investors, which understandably seek control over their investment. Moreover, while the Negative Investment List may have opened up in several sectors, other regulations have gone the other way, effectively negating the more open provisions of the list.

² <http://isd-indonesia.org/wp-content/uploads/2015/10/Indonesia-Services-Dialogue-Policy-Recommendation-Yose-Rizal-Damuri.pdf>



The Australian Services Roundtable has made recommendations³ for Australian domestic and trade policy changes in its numerous submissions to governments. These include a review of barriers to investment such as state based professional licensing and currency restrictions and payment systems.

RECOMMENDATIONS

- The IA-BPG recommends ongoing review and liberalisation of the Negative Investment List in Indonesia and further liberalisation of access to the services sector in Australia.
- Restrictions on movement of people is another major impediment to growth in services trade and investment. As this position paper advocates elsewhere, easier movement of people is a key to the success of the IA-CEPA.

➤ DELIVERING ECONOMIC ASPIRATIONS

Potential of Indonesia-Australia Economic Relationship

In preparing this position paper the IA-BPG commissioned an analytical study of economic relations between Australia and Indonesia by Dr. Kiki Verico of the Faculty of Economics and Business at University of Indonesia. The study, included as Appendix 1, provides a detailed academic analysis of the economic relationship between Australia and Indonesia – including the historical and socio-political links between the two countries, trends in trade, commerce and economic growth. It provides extensive background material and context, providing a wide range of economic data, statistics and indicators. It concludes that, while the economies of the two countries exhibit significant differences, those differences are complementary and provide potential for significant *additional* growth as a result of concluding a comprehensive economic partnership agreement.

Assuming a closer economic relationship, such as that envisaged in the IA-CEPA, the report predicts greater economic growth for Indonesia and Australia. On that basis the report predicts that:

- Indonesia's long-term economic growth will increase from 5% (1999-2014) to 7.4% (2016-2030).
- Australia's long-term economic growth will increase from 3.1% (1999-2014) to 3.6% (2016-2030).
- Indonesia's GNI per capita will reach US\$10,385 by 2030 from US\$3,573 in 2015.
- Australia's GNI per capita will reach US\$118,648 by 2030 from US\$60,070 in 2015.
- Per capita income in Indonesia will triple over the next 15 years, while Australia's will almost double.

Indonesia and Australia are the two largest economies in the Southeast Asia/Oceania region. Together, they would be the ninth largest economy in the world. Indonesia is one of the fastest

³ <http://australianservicesroundtable.com.au/>



growing economies in the developing world (over the past decade it was third only to China and India in annual GDP growth), while Australia is the fastest growing OECD economy.

The bilateral trade and investment performance of the two economies greatly underperforms its potential, despite Indonesia and Australia being neighbours and despite their economic complementarities. The two economies are structurally different, which reflects their development status. Comparative and competitive advantages are different. Business and institutional cultures and capabilities are different. Business in each nation poorly understands opportunities in the other nation and how to do business there. Trust and confidence are, in general, low.

Nevertheless, and indeed in part due to differences, strong complementarities exist between the two economies. With complementary patterns of consumption, production, technology and skills, there are lucrative opportunities to create synergies in ways that neither nation could achieve on its own. Building on existing agreements, the IA-CEPA is necessary to provide an innovative framework for building a strong, lasting economic partnership.

Of all of Indonesia's and Australia's relationships, an economic partnership between them has the greatest potential for transformational change in bilateral ties. For Indonesia, Australia can work to meet crucial needs spanning agriculture to tourism; infrastructure to e-commerce – to support Indonesia's economic growth and global trade connections. For Australia, Indonesia can open new avenues for growth using human resources, natural assets and the AEC as a springboard into Asia and the world beyond. When there is greater trade and investment, more partnerships and more people-to-people contact, the relationship will change for the better, to one of mutual respect and greater cooperation towards achieving shared goals.

IA-CEPA Basic Features

The IA-BPG supports the concept of an IA-CEPA that is much broader than a traditional FTA. The IA-CEPA should also reflect more advanced commitments than the ASEAN-Australia New Zealand Free Trade Agreement (AANZFTA) and at least the commitments of other FTAs that Indonesia and/or Australia have agreed with other nations. The IA-CEPA will lay the foundations for a comprehensive partnership between Indonesia and Australia that facilitates much greater trade, investment and joint business activity. It should encompass innovative joint initiatives between governments, business associations, businesses, industry and educational institutions; as well as capacity building in strategic areas to build bilateral relations. The free flow of raw materials, partially-manufactured goods, capital and services will also enable efficient production chains to access global markets beyond our mutual borders.

The basic features of IA-CEPA as identified and recommended jointly by the business communities of Indonesia and Australia are as follows:

1. Further liberalisation of two-way trade in goods through faster tariff reductions and no or very limited exclusions (that need to be WTO consistent), and lowering of at-the-border and behind-the-border barriers, such as quotas and bans (with remaining measures needing to be WTO-consistent), to enable producers in both countries to access both markets and in the process gain experience for jointly accessing other markets.
2. Liberalisation of two-way trade in services, including reduction of restrictive regulation, and enabling movement of natural persons to enable service providers in each country



to access the other market and satisfy demands for services, knowledge and technology, enhancing providers' capacity and quality.

3. Investment facilitation in all sectors through more effective provision of investment information, actively encouraging two-way investment, promotion and reduction or removal of investment restrictions to increase economic activity in both economies.
4. Alignment and simplification of rules, including mutual recognition of technical standards for goods and services, professional qualifications, standards and classification of goods for customs purposes that will improve trade facilitation.
5. Facilitating movement of skilled persons to Indonesia and Australia, and seasonal workers to Australia, and capacity building for less skilled workers including in-market experience and improved language skills, to increase the pool of available people to support mutual economic development.
6. Value chain integration by cross-border cooperation to identify market opportunities and business synergies, leverage comparative and competitive advantages, improve access to internal markets and participate in global supply chains.
7. Ongoing capacity building to improve government policy and procedures, build institutional capacity, lift skill levels, facilitate bilateral business opportunities, improve two-way cultural and language skills and understanding, and boost farm production and food security
8. Digitisation of trade-related practices and increased trust in the online environment through an e-commerce chapter.
9. Facilitating trade in Environmental goods and services through identification of joint opportunities, and lowering of barriers to trade, investment and movement of people.
10. Promoting the development of Small Medium Enterprises SMEs by fostering cooperation and investments between SMEs in both Indonesia and Australia.
11. Seeking mechanisms that facilitate *regional* business development in addition to business in the current economic centres of both countries.
12. Establishing new institutional mechanisms to monitor and facilitate the implementation of IA-CEPA.

Key Characteristics of the IA-CEPA

The Indonesian and Australian business communities agree that the IA-CEPA should be characterised by the following:

1. *Economic cooperation.*

The primacy of economic cooperation in the IA-CEPA over standard free trade agreements has been emphasised throughout the IA-BPG's deliberations. The potential gains from strategic cooperation between both countries' private sectors and governments are enormous, especially in cross-border integration in the value chains of economic and business processes. The fact that both economies are essentially complementary in terms of resources and capabilities has made the case even more compelling. The economic analysis commissioned by IA-BPG (Appendix 1) found that "Indonesia and Australia both produce products that the other needs, providing an excellent opportunity for each of them to build strong trade relations". And further, Indonesia's abundance of unskilled labour,



complements Australia's relatively small, but highly skilled workforce. Australia's development assistance program will be both a key economic cooperation mechanism in itself and an enabler of bilateral economic cooperation in the private sector. The program should be aimed at building economic capacity and facilitating development of markets and value chains for both partners.

2. *IA-CEPA as a dynamic and growing process.*

IA-CEPA should be a living process – a work in progress that needs consistent monitoring, evaluation and improvements over time. An ongoing process of monitoring and review, including some form of public-private framework, is therefore necessary to allow business to continue to provide input on the progress, direction and growth of the agreement.

3. *Fostering inclusive growth in both countries.*

Inclusiveness encompasses equity, equality of opportunity, and support in market and employment transitions. Inclusive growth should contribute to sustained poverty reduction allowing people to participate in and benefit from economic growth. This is an essential item for a successful growth strategy that should be a key feature in the IA-CEPA. Equality of opportunity in terms of gender impacts and geographic spread of the opportunities and benefits, access to markets, resources, and unbiased regulatory environment for businesses and individuals should also be emphasised. Inclusive growth also implies a longer term perspective with regards to the targeted impacts to be achieved.

4. *Continuous engagement with stakeholders.*

The IA-CEPA is expected to have a broad and far-reaching impact on both economies. This will require a transformation strategy that will facilitate and encourage changes within the business sector, especially SMEs. Continuous engagement with business communities in both countries is needed to ensure high awareness and buy-in. The IA-CEPA should also be practical, providing immediate outcomes through short-term actions and solutions, and yet maintain a long-term aim and vision. The IA-BPG and its member organisations can continue to facilitate engagement of business during IA-CEPA implementation and be a conduit for feedback and measurement of impact.

5. *Include measures to tackle the information shortage, and market failure, and facilitate business linkages.*

Businesses from both countries identified a lack of available information regarding business and trade opportunities in both markets. This lack of information – and even misinformation – is a major hindrance to the increase of trade and investment cooperation. While a significant business relationship already exists between the two countries, business stakeholders feel that this represents a narrow base and that much would be gained from organised and systematic business information sharing and awareness-raising in both countries. Even with better information on markets and doing business, the business relationship may continue to underperform due to longstanding negative perceptions and even lack of trust between businesses and between business and government. Therefore, aside from measures creating a greater systematic exchange of information, the IA-CEPA should provide funding for trade and investment promotion, and include mechanisms that will facilitate building relationships of trust leading to stronger B-to-B and B-to-G linkages.



Business Involvement and Stakeholder Engagement in IA-CEPA

The establishment of the IA-BPG and the resulting consultation and discussions between business associations in Indonesia and Australia represents a unique and ground-breaking approach to stakeholder involvement in a G-to-G negotiation process such as the IA-CEPA. The IA-BPG process has enabled business communities from both countries to voice their opinions to shape the economic and trade relationships that Indonesia and Australia are trying to build.

Following the approach taken by the IA-BPG in 2012 – that is, a consultative process which sought input from all business stakeholders – in preparing the current submission, the associations which make up the IA-BPG invited each of their constituent members to provide input, opinions, recommendations, or other suggestions through interviews, written submissions and workshops. Whereas in 2012 IA-CEPA was a relatively new concept, in the intervening period general awareness about the negotiation has increased, leading to better understanding of the concept and hence more extensive inputs to the IA-BPG process. More details on the process of seeking input from the private sector and other stakeholders are contained in the annex of this report.

Nevertheless, although this position paper reflects the broadly held position of Indonesian and Australian business, it is not possible for the paper to reflect the views of business on every aspect of the IA-CEPA.

As negotiations proceed between the two governments, business will need ongoing opportunities to provide input, particularly on the sectoral detail of the IA-CEPA, as well as on cross-sectoral and economic cooperation matters.

In addition, the IA-BPG points out that the process is almost as important as the outcome, in that the recent and ongoing consultations will be important in informing business about opportunities and in overcoming information deficits and market failure.

Further, as noted above, the IA-BPG believes that the IA-CEPA should be a dynamic agreement that can be adapted over time. In this context, the IA-BPG recommends the following to be established during the IA-CEPA negotiations:

- ***Continuing Business to Business Engagement.***

Initiatives such as the IA-BPG should become a model for business associations from both countries to engage with each other to discuss and identify opportunities for cooperation. Chambers of Commerce and Business Councils could be the drivers in both countries and encourage their members to foster closer relationships with their counterparts in Indonesia or Australia. Businesses from both countries need to start looking at the significant opportunities that can be achieved by working together. Business-to-business engagement is also an efficient way to overcome the current market failure.

- ***Broader Stakeholder Engagement.***

The IA-BPG also concludes that stakeholder engagement should not be limited to businesses only. IA-CEPA should include provisions for engaging with a broader set of stakeholders that can have a significant impact on the upcoming IA-CEPA. This should include the media, civil society, universities and local government institutions. Engagement with these stakeholder groups in both countries is needed to ensure high awareness and buy-in. As an example, there is a general cynicism towards FTAs, CEPAs and an open economy in Indonesia. Meanwhile in Australia there are some community concerns about FTAs, plus negative and



out-dated views about Indonesia that inhibit cooperation. This will need to be tackled strategically through stakeholder engagement activities. Engagement with the mass media is important considering its capacity to influence public opinion. False perceptions on both sides are in many ways fed by the media.

▪ ***Establishment of Ongoing Business Engagement***

The IA-BPG commends the commitment of the Department of Foreign Affairs and Trade (Australia) and the Ministry of Trade (Indonesia) to accommodate mechanisms to involve business and seek their input. The IA-BPG recommends that an ongoing process of business input, including a government-business group be established to oversee the implementation, monitoring and further development of the IA-CEPA. The IA-BPG suggests the committee should consist of representatives from the business community, sector experts and other stakeholder representatives (including academics) from both countries who will further discuss in detail how to activate the opportunities and address issues raised in this paper and by others. In line with the intention to make the IA-CEPA a living process, the ongoing IA-BPG will continue to provide input and suggestions on the IA-CEPA negotiation process and its application.



Chapter 2

ADDRESSING IMPEDIMENTS TO TRADE, INVESTMENT AND ECONOMIC COOPERATION

Despite recent trade liberalisation, a range of impediments to greater trade and investment flows between Indonesia and Australia – and to business collaboration – still exist.

During consultations and IA-BPG discussions, the business sectors from Indonesia and Australia, as drivers of trade and investment, drew on their knowledge and experience to provide insight into what are perceived to be the main obstacles to a stronger trade and investment relationship between the two countries.

Recommendations and expectations for the IA-CEPA expressed during consultations formed a starting point for the IA-BPG in devising this paper. It was an essential element in gaining input and advice from a wide range of stakeholders in order to develop the key pillars, sectoral and cross-sectoral detail of the IA-CEPA.

Despite the opportunities to develop comprehensive partnerships in many sectors between Indonesia and Australia, and despite their obvious benefits, the following section outlines several issues that continue to hamper trade and investment between the two countries.

TRADE AND INVESTMENT BARRIERS

A more open and free flow of goods and services, with a high realisation of investment, should be the main goals of the IA-CEPA according to business communities. This cannot be achieved if trade and investment barriers remain in place. The IA-CEPA should also contain a commitment that neither country will impose further trade restrictions in future, including for trade in new kinds of goods and services. Barriers to trade and investment as identified by business stakeholders are as follows:



➤ **REMAINING TARIFFS**

As noted in the IA-CEPA position paper of 2012, stakeholders in both countries have pointed to remaining tariff barriers as a significant impediment to trade. As the IA-CEPA is expected to be complementary to the provisions of AANZFTA, IA-BPG seeks to accelerate the AANZFTA commitment to phase-out and ultimately remove tariffs, including tariffs on products which have, so far, remained exempt from AANZFTA. According to AANZFTA's tariff elimination schedule, Australia has committed to 100% elimination of tariffs by 2020 while Indonesia has committed to eliminating 93.2% of overall tariffs by 2025. A quarter of Australian goods trade currently faces Indonesian tariffs, while as discussed below, trade in some goods where Indonesia has a competitive advantage (e.g. textiles, clothing and footwear) still faces substantial tariffs in Australia.

The IA-BPG recommends the accelerated removal of all tariffs, as rapidly as possible. This will improve consumer choice and reduce costs of inputs by manufacturers, as well as assist in integrating value chains.

Indonesia has reduced but not eliminated tariffs on a range of agricultural and agribusiness products, including live cattle, certain categories of mutton and lamb, frozen pork, processed seafood, several dairy products, and some fresh and processed fruit and vegetables. A number of sensitive agricultural products such as rice, sugar, wine and spirits are also excluded from Indonesia's AANZFTA tariff reduction commitments, therefore some products continue to be subject to high tariffs. The Indonesian government is of the view that rice and sugar are staple agricultural commodities that need to be regulated and monitored considering the high consumption rates of those products and to protect local farmers. While the need to protect local farmers can be recognised, IA-CEPA should ensure that tariffs applied to Australia are reduced as much as possible and are at the same level as those applied to other countries. For example, Australian sugar exporters raise concerns relating to disadvantages arising from the ASEAN Trade in Goods Agreement (ATIGA) which provides lower tariffs and thus favours sugar imports from countries such as Thailand. There must be a reduction in tariffs on Australian sugar imports at least to a level equivalent to that applied to Thailand.⁴

On the other hand, Australia has already eliminated tariffs on most agricultural products but is applying a slower phasing out of tariffs on several lines of products, especially in manufacturing until 2020. Some tariff lines on textiles and textile products in Australia remain, and will only be phased out completely by 2020. For example, woven fabric textiles; wool carpet; terry towelling, and cotton knitted and crocheted fabrics will still be subject to tariffs until 2019. As for apparel and clothing accessories, a 15% tariff is applied and will be gradually reduced to 10% in 2019. Although the annual quantity of Indonesian textile exports remains limited, Indonesian textile businesses submit that, under IA-CEPA, textile exports to Australia should be made completely tariff-free or that they should receive a special tariff rate. Currently, there are only two tariff-free textile products, i.e. HS 52 (Garment Knitting) and HS 62 (Garment Non-Knitting).⁵ While Indonesia already receives preferential treatment under the Australian System of Tariff Preferences (ASTP), eliminating these tariffs more rapidly will open up opportunities for Indonesian textile and clothing producers to compete with Chinese products in the Australian market. The current review of ASTP could recommend much larger concessions for Indonesia,

⁴ Submission from Australian Sugar Industry Alliance.

⁵ Interview with the Indonesian Textile Industries Association (API).



but as stated, the preference of the IA-BPG is for faster removal of tariffs under IA-CEPA. Additionally, in the agricultural sector, Indonesian stakeholders seek the elimination of import tariffs on cocoa products.⁶

A complete removal of tariffs on manufactured goods would maximise consumer choice and enable producers to have greater access to raw or semi-finished materials and improve their competitiveness in the global market.

➤ **TRADE REGULATIONS AND PROCEDURES**

Complicated regulations and procedures often hamper the free movement of goods and services. Regulations are often overlapping and unclear, causing delays to business processes. Indonesian and Australian businesses stated their need for comprehensive guidance on trade regulations and market opportunities. Such guidance would help boost efficiency and productivity of conducting business in the respective countries as well as avoiding unnecessary complaints about trade between the two countries.

For Indonesian businesses, clearer guidance on import requirements into the Australian market is needed. Indonesian stakeholders have commented that lengthy delays are encountered when exporting goods such as handicrafts and coffee to Australia due to customs and quarantine processes.⁷ Businesses have therefore voiced their preference for simplified procedures which will lower costs, increase certainty of outcomes and avoid double quarantine processes. Many Indonesian stakeholders believe that these procedures are intended to impede the entry of Indonesian goods to the Australian market, especially considering that the same goods are accepted more easily into the United States or European markets. Negative perceptions of this kind should be addressed by the IA-CEPA by making it facilitative and providing mechanisms which assist Indonesian exporters to enter the Australian market including detailed information on how to meet usual quarantine provisions.

The Indonesian tobacco sector has pointed to Australia's plain packaging policy for tobacco products as a barrier to trade, and contends that there is insufficient scientific evidence to support the mandatory use of plain packaging. Indonesia, with several other countries including the Dominican Republic, Cuba, Ukraine and Honduras, have protested against Australian plain packaging policies arguing that the policy breaches Australia's international trade obligations with regard to intellectual property rights, in particular trademarks and geographical indications.⁸ In the context of IA-CEPA, policies should be avoided by first having sound scientific basis before being enacted.

Just as Indonesian businesses have expressed concerns about regulatory difficulties in trade with Australia, so too have Australian businesses voiced concerns about complicated and opaque regulations and procedures applied to trade in Indonesia. IA-BPG recognises that the Indonesian Government is striving to remove certain trade obstacles by revising related regulations (e.g., regulations on the importation of animals and animal products). Indonesia is progressively improving its trade and investment environment, and IA-BPG appreciates that such actions are

⁶ Submission from Indonesian Cocoa Association (ASKINDO).

⁷ Submission from Association of Exporters and Producers of Indonesian Handicraft (ASEPHI). Interview with Association of Indonesian Coffee Exporters and Industries (AEKI).

⁸ Submission from Indonesia Tobacco Community Alliance (AMTI) from the FGD on 30 May 2016



taken after careful assessment – including special consideration for the impacts on MSMEs and preparing them for an era of global free-trade.

As stated in the 2012 report, Australian businesses still face complicated procedures in exporting food and food products into the Indonesian market. All imported products must be registered with the Indonesian National Agency for Drug and Food Control (BPOM) to obtain ML numbers, which takes 6 to 18 months to complete. Australian goods also require Halal certification from the Indonesian Council of Ulama (MUI) and must comply with Indonesian National Standards (SNI) certified by the Indonesian National Standardization Agency (BSN). Compliance with this suite of regulations is perceived as being complex, difficult and unclear by Australian business entities. Comprehensive and authoritative guidance in navigating these bureaucratic requirements is essential for achieving better trade outcomes for both countries.

Protective policies and regulations are still applied in the services sectors of both countries. For example, Australian doctors will find it difficult to operate in Indonesia despite the country's high demand for world-class health treatment, as will Indonesian doctors who would like to gain experience in Australia. The restrictions also limit the ability of Australian doctors to do on-the-job training in Indonesia. There is a need for cooperation with Australia in training, particularly for doctors who are in dire need for professional capacity building in areas outside of Greater Jakarta and major cities in Java. The regulations should be relaxed to facilitate this.

Other professional services also deal with the same problems that hinder cooperation in this sector creating hurdles for transfer of knowledge, technology and best practices. Common understanding on what are considered acceptable qualifications for workers between Indonesia and Australia is also needed – as Australia's definition of "skilled" workers is based on possessing a recognised qualification.⁹

RECOMMENDATIONS

- Establish a consultation forum to provide guidance on trade regulations and market opportunities particularly as they apply to professional services. Such guidance would help boost efficiency and productivity of conducting business in the respective countries, and enhance capacity.

➤ **TECHNICAL BARRIERS TO TRADE**

Technical barriers to trade, such as SPS¹⁰ measures, mandatory registration requirements, or certifications, applied in Indonesia and Australia often hinder trade and investment. According to stakeholders, both Indonesia and Australia apply complicated standards and certifications processes which limit the free movement of products.

IA-CEPA should encourage Indonesia and Australia to work together towards harmonising standards and regulations, for example, improved regulatory coherence, cooperative mechanisms, and mutual recognition.

⁹ Indonesia-Australia Business Partnership Group, "Position Paper: on Considerations towards the Indonesia-Australia Comprehensive Economic Partnership Agreement," 2012.

¹⁰ Sanitary and Phytosanitary.



Sanitary and Phytosanitary Standards

In Australia, high SPS¹¹ standards and quarantine requirements are not readily understood or complied with by Indonesian producers due to both capacity issues and costing pressures.¹² For Indonesian producers, the US and EU markets are considered more sizeable and attractive, making efforts to meet required US and EU standards worthwhile, compared to what they see as a small market in Australia by comparison. However, Indonesian businesses are baffled that these standards are often not recognised by Australian authorities. While many are unconvinced that the extra efforts and costs required to meet Australian SPS measures are commercially feasible, they expect that products already meeting international standards as applied in the US or the EU should also be accepted in Australia.

For example, Indonesian coffee products readily accepted in other international markets encounter difficulties fulfilling Australia's strict standards for market entry.¹³

The IA-BPG notes that the Thailand Australia FTA enables easier export of fruit to Australia, and includes cooperation to help Thai exporters meet SPS requirements. The IA-CEPA should include a program within the Economic Cooperation stream that establishes a capacity-building and export facilitation activity to support exporters of Indonesian agricultural products.

Quarantine

Quarantine agencies also need to collaborate in order to avoid double quarantine processes. For example, the Indonesian government requires imported cotton plants to be quarantined to prevent spread of disease. Similarly, the Australian government requires quarantining of cotton plants prior to export. This is seen as inefficient and hampers the supply of cotton. Quarantine mechanisms must protect the unique environments of both countries and be based on scientific rigour and risk-based analysis. However, it should not impede otherwise justified trade flows that may lead to inefficiency and higher production costs.

Harmonising Standards

Harmonising or aligning international standards has been identified as one area which will significantly facilitate trade; and progress has already been made in this area. The Indonesian National Standardization Agency (BSN) and Standards Australia (SA) have already commenced work on formulating an IA-CEPA Standards Harmonization Action Plan.¹⁴ In this Action Plan, SA and BSN will collaborate to develop and align joint standards with the aim of reducing unnecessary costs stemming from different standards and regulations.

SA is well placed to provide technical expertise and capacity building support to BSN through an economic cooperation program to support the implementation of Standards, Technical Regulations and Conformity Assessment Procedures (STRACAP) provisions in the IA-CEPA. SA's

¹¹ SPS measures are applied to protect human, animal and plant life or health from risks arising from the introduction and spread of pests and diseases and from risks arising from additives, toxins and contaminants in foods and foodstuff.

¹² Interviews with Association of Indonesian Peppers Exporters (AELI), the North Sumatera chapter of Indonesian Association of Employers (APINDO Sumut), the East Nusa Tenggara chapter of Indonesian Association of Employers (APINDO NTT), the Association of Exporters and Producers of Indonesian Handicraft (ASEPHI), the Indonesian Fish Cannery Association (APIKI), the Association of Indonesian Soft Drinks Manufactures (ASRIM), the Indonesian Cosmetic Producers Association (PPA-Kosmetika).

¹³ Submission from Association of Indonesian Coffee Exporters and Industries (AEKI)

¹⁴ Submission from Standards Australia Ltd.



actions include joint planning of activities, development of a Voluntary Action Plan for the adoption of international standards, and the implementation of a specific IA-CEPA Standards Harmonization Action Plan.

With regard to harmonisation of standards, the IA-BPG notes that significant differences may exist across various sectors in the complexity and length of time required to implement this process. Hence, priority sectors most in need of harmonisation should first be identified by both governments through consultation with business associations. Food and beverage, agriculture and labour are three high priority sectors.

The Indonesian plastics industry also emphasises that HDPE (High Density Polyethylene) which is currently not accepted in Australia, is normally accepted in other markets globally.¹⁵

Halal Certification

Halal certification has also been raised as a potential obstacle to trade which could be addressed by a coordinated approach. Currently, Australian processed food entering the Indonesian market must be certified as Halal by the Indonesian Ulama Council (MUI). Establishing a joint body which could certify products as Halal for the Australian, Indonesian and third-country markets could significantly address inefficiencies and uncertainty which currently exist in this area. Addressing this issue would lead to greater efficiency for exporters, which translates to greater access, choice and lower costs for consumers.¹⁶ The end outcome should be one that supports trade and at the same time meets the larger objectives underpinning the new Halal standards.

The BPG notes that the issue of Halal certification is more complex than it may appear, as there remain differences between the Halal certification requirements between Moslem countries which act as an impediment to the mutual recognition of Halal standards.

Alignment of Qualifications

A further technical barrier to trade which should be addressed by IA-CEPA is the standardisation or alignment of qualifications for workers in the services sector. Indonesian stakeholders expressed difficulty in meeting specific sectoral standards applied in Australia. Indonesian professionals with qualifications in the mining and insurance sectors are relatively well-placed to enter the Australian market. However, qualifications of skilled workers such as nurses or caregivers are generally not recognised in Australia.

Stakeholders have therefore expressed the hope that an IA-CEPA can address this by providing capacity building to facilitate the entry of services sector workers into both markets. For example, Indonesian electrical engineers have expressed a need for further capacity building, training and skills enhancement to facilitate the certification necessary to access the Australian market.¹⁷ Meanwhile, it is difficult for Australians to enter the Indonesian services market as medical doctors or legal practitioners, although Australian lawyers may practice in Indonesian law firms with certain restrictions.

¹⁵ Submission from Indonesian Olefin Aromatic and Plastic Industry Association (INApLas).

¹⁶ Submission from Meat and Livestock Australia.

¹⁷ Interview with the Association of Indonesian Electrical and Mechanical Contractors (AKLI).



➤ **TRADE RESTRICTIONS SUCH AS IMPORT QUOTAS AND LICENSING**

In agriculture and agribusiness, Indonesia imposes import quotas and restrictions on beef and live cattle imports intended to protect domestic beef producers, and promote a long-term plan to achieve beef self-sufficiency. A recent decree imposes a restrictive weight limit on live cattle imports of 350 kg per consignment. Quantitative restrictions on the number of live cattle import permits are also imposed, and beef/offal import permits are also managed with import volumes being adjusted on an ad-hoc basis. Indonesia also currently enforces a ban on offal products and there is no agreed specific certification for the import of Australian rendered edible animal fats and oil, such as tallow, into the Indonesian market.¹⁸ In terms of licensing, Australian stakeholders submit that procedures for administering import permits lack transparency and certainty. There is also concern that Indonesia's current ban on offal products cannot be justified on a food safety or Halal certification basis.

Stakeholders from the meat and livestock sector therefore recommend that the IA-CEPA address the removal of these non-tariff measures which adversely impact industry's ability to provide consistency and certainty of supply.

In the agriculture sector, Indonesian businesses seek the removal of Indonesian import restrictions on canned fish products and refined sugar. Although this suggestion was initially expressed by Indonesian stakeholder, this may impact the bilateral supply chain. Australian supply is needed to fulfill Indonesian demand for both fresh fish for the canned fish industry and refined sugar for the soft drink industry.¹⁹

In the mining and energy sector, the Indonesian government recently imposed a ban on exports of raw minerals, in an effort to secure domestic supply and boost development of the domestic downstream industry. The 2009 Indonesian Mining Law stipulated a complete export ban of unprocessed mining commodities to take effect in 2014, with progressive steps to reduce large-scale exports that are perceived as a threat to the country's energy security. Due to low commodity prices, Indonesia later issued governmental and ministerial regulations in 2014 extending the deadline to 2017 for companies with a demonstrated commitment to establishing processing facilities.

The Indonesian government is not expected to relax the provisions of the law although the Indonesian Mining Law is scheduled for revision in 2016. Regarding foreign investment, the current law still requires that mining services must be provided by Indonesian companies where available. Foreign mining services companies may only operate under special conditions where national providers are considered to be unable to provide the necessary services.

In manufacturing, some goods, such as plastics, medicines, alcohol and lubricants amongst others are subject to restrictions such as special licences and/or limited import volumes to Indonesia. The government issues these policies in order to protect up-stream industry and also consumers from low quality hazardous materials. Evaluation of these policies has taken place based on discussions with upstream and downstream industry. If restrictions and special licences continue to be applied it will be difficult for Australia to obtain certain raw materials from

¹⁸ Submission from Meat and Livestock Australia.

¹⁹ Interview with Indonesian Fish Cannery Association (APIKI) and the Association of Indonesian Soft Drink Manufacturers (ASRIM).



Indonesia, for example restrictions on wood exports by the Indonesian government to favour Indonesian downstream industries in manufacturing.

Restrictions can also be found in Australia where the government applies strict regulations on pharmaceutical and botanical products which represent an impediment to Indonesian herbal medicine companies acquiring supplies from Australia. Still related to manufacturing, some in Australian business have called for anti-dumping measures for paper products to protect local industry.

IA-BPG recognises that dumping and accusations of dumping can negatively impact on the bilateral relationship. While the rules around Anti-Dumping are technically administered by the WTO, we believe that in the interests of the bilateral relationship there should be ongoing cooperation to ensure that local industry, importers, exporters and customers have confidence in both the process and the decisions of the respective Anti-Dumping authorities. With any regulatory scheme, it is essential that governments receive regular updates from industry to ensure that the system continues to be effective in a dynamic business environment and provides industry with timely, consistent and transparent decisions.

In the services sector, protective regulations exist particularly in regard to the provision of professional services in Indonesia. Very tight entry controls and restrictions on business operations are considered discriminatory in professional services in Indonesia, and cover accountants, lawyers, architects, engineers, banking and healthcare professionals. Under current Indonesian regulations commercial presence of foreign services providers is not permitted without engaging local partners. In Indonesia, foreign lawyers may not exceed 20% of the proportion of lawyers in a firm and no more than five foreign lawyers per firm are allowed.

➤ ***BARRIERS TO TEMPORARY ENTRY OF SKILLED PROFESSIONALS AND SEASONAL WORKERS***

Remaining and persistent impediments on trade are not limited to barriers to trade in goods and services. Impediments on the temporary entry of skilled professionals and seasonal workers also represent a significant obstacle to increased trade and economic engagement. In the context of the IA-CEPA negotiations, the movement of such workers is considered a key element to developing a fairer – not limited to freer – movement of skilled people. More importantly, without better conditions for movement of people, the IA-CEPA will not deliver on its full potential, as accessing the necessary skilled labour and human resources is key to success.

Issues of temporary entry of skilled professionals and seasonal workers relate to processes for obtaining visas, work permits and length of stay. There are also barriers created by a lack of mutual recognition of qualifications which needs to be addressed in the IA-CEPA. Basically, visa requirements between the two countries are imbalanced. While Australian tourists and business people may use visa-free or visa-on-arrival entry when visiting Indonesia, Indonesians are still subject to a lengthy, burdensome process for obtaining a visa for travel to Australia.²⁰ However, Australian stakeholders have also pointed to difficulties in the process of acquiring multi-entry business visas or work permits (KITAS). In many cases, Australian business people revert to a

²⁰ Interview with Association of Indonesian Congress and Convention (AKKINDO).



tourist visa when they should be travelling on a business or work visa and this impacts the reporting and classification of travel to Indonesia by Australians.²¹

The IA-CEPA creates an opportunity for the development of a new visa category with characteristics that can be drawn from existing Australian visa schemes such as the Pacific Seasonal Worker Scheme²² (providing seasonal employment) and the Enterprise Migration Agreements²³ (providing project-based temporary employment). IA-CEPA should include a relaxed and novel visa scheme which allows Indonesians and Australian skilled workers to easily move across the border as envisaged in the ASEAN Economic Community. With a more relaxed visa scheme Indonesians will benefit from on-the-job experience (such as internships and secondments) to improve their English language and professional skills before returning to Indonesia to further contribute to economic development. Similarly Australians could benefit from in-market experience in Indonesia and Indonesian language skills.

Indonesian stakeholders believe that qualifications required to enter the Australian services market are unfair.²⁴ Representatives from the Indonesian private sector stressed that there is an unnecessarily high level of English competency required for Indonesian migrant workers (semi-skilled labour) to enter the Australian market under the 457 visa scheme. For instance, Indonesian nurses find it difficult to practise in Australia because of the stringent requirements which must be met. In order to obtain nursing registration, foreign nurses are required to obtain a relatively high IELTS test result of 7.0 out of 9, in addition to other requirements such as obtaining sponsorship or a resident visa, as well as undergoing a medical examination. Indonesian graduates from Australian universities have voiced concerns about the difficulties of obtaining post-graduation work experience or job opportunities; graduating from an Australian university does not guarantee the ability to undergo work experience in an Australian workplace. On the other hand, Australian medical and legal practitioners who seek to practise in Indonesia face similar restrictions.

However, changing conditions in the global labour market in coming years may drastically alter the situation in this area. Predictions of a massive skilled labour shortage across Australia by 2030 due to a service-dependent and ageing population could lead to significant opportunities and benefits for Indonesian skilled workers.²⁵ With a view to this eventuality, Indonesia and Australia should now take the necessary steps to facilitate alignment of skills qualifications, skilled labour standards, training, capacity development and visa requirements to ensure that the needs of the skilled labour market are met and future mutually desired and expected outcomes are achieved.

²¹ Submission from AFS Intercultural Program Australia.

²² The Seasonal Worker Program commenced on 1 July 2012, building on the Pacific Seasonal Worker Pilot Scheme in contributing to the economic development of participating countries, while also offering Australian employers in the horticulture industry access to workers from eight Pacific island nations and East Timor when they cannot find enough local labour to satisfy seasonal demand. (DEEWR – Australia).

²³ EMAs are a custom-designed, project-wide migration arrangement suited to the resource sector. EMAs ensure that skill shortages do not create constraints on major projects and jeopardise Australian jobs. EMAs help major resource projects to access labour from outside of Australia to cover genuine skill vacancies that cannot be filled from within the Australian labour market. (Department of Immigration – Australia).

²⁴ Submission from Indonesia Service Dialogue (ISD).

²⁵ ANZ Bank, "News Release: Australian Service Dependent Economy and Ageing Population could cause Skilled Labour Shortage by 2030", June 2016.



➤ **FOREIGN DIRECT INVESTMENT RESTRICTIONS**

In terms of foreign investment, stakeholders from both countries highlight the implementation of Indonesia's most-recent Negative Investment List (*Daftar Negatif Investasi/DNI*). On 18 May 2016, a new negative investment list was issued containing significant changes; most importantly it provides preferential treatment to ASEAN countries. The DNI now allows ASEAN investors to invest in certain previously closed business fields and have an increased shareholding of up to 70% in specified sectors. The liberalisation of foreign investment in more sectors is welcomed as a positive development by the IA-BPG. Preferential treatment, at least at the same level as that offered to ASEAN countries, should also be provided to Australian investments under the IA-CEPA.

Australian business has expressed concern that even with the changed provisions of the Negative Investment List, some sectors remain restricted and some that have been liberalised are subject to Ministry regulation that imposes new or ongoing restrictions. Consistency of regulation is needed to build investor confidence.

IA-CEPA needs to address liberalisation of investment regulations as a priority. IA-BPG notes that AANZFTA does not currently have most favoured nation or market access commitments relating to investment.

In Australia, the Foreign Investment Review Board reviews foreign investment applications over the national threshold on a case-by-case basis which maximises the flow of investment and at the same time protects Australia's national interests. In Indonesia, the responsibility of managing foreign investment lies with the BKPM,²⁶ but is mostly regulated sector-by-sector by the relevant minister.

Both, Indonesia and Australia are in need of foreign investment. Growth in the two countries depends on high levels of investment, with the majority of investment from foreign sources. BKPM investment figures show that over the past decade, more than 65% of all investment in Indonesia has been from FDI, with that pattern expected to continue in the face of unprecedented demand for total investment across all sectors. Australia also relies heavily on FDI but with a smaller proportion (13%) of total investment, largely because of well-developed domestic capital markets. Barriers to investment should therefore be considered disadvantageous to Indonesian as well as Australian national interests.

IA-BPG believes that two-way investment data is inadequate and encourages both governments to work together to improve bilateral investment data.

Despite their geographic proximity and their longstanding relations, bilateral investment levels in Australia and Indonesia are relatively small. In 2015, Australian FDI in Indonesia reached AU\$5,321 million while Indonesian FDI was only AU\$13 million.²⁷ Consultations with Australian business have revealed that these relatively low levels of FDI are in large part due to a number of impediments to investment in Indonesia, including ongoing investor uncertainty about the regulatory system, particularly in mining and also in other sectors like financial services. For services, the Negative Investment List and other regulations have restricted investment in

²⁶ Indonesian Investment Coordination Board.

²⁷ Australian Government: Department of Foreign Affairs and Trade, "Indonesia," accessed on 20 July 2016, <https://dfat.gov.au/trade/resources/Documents/indo.pdf>.



several sectors that are strengths of Australian business. However, the introduction of the recently-amended Indonesian Negative Investment List of 2016 should improve prospects for foreign investment in a number of sectors.

Limits on foreign investment represent a major factor in reducing investment flows between the two countries. In agriculture and agribusiness, Indonesia applies a maximum 49% foreign ownership to farms where the main crops are corn, soy, peanuts, green beans, rice, cassava and sweet potato. In addition, foreign investment in plant culturing, nurseries, genetic agriculture and GMO products may be subject to limitations and must obtain a recommendation from the Indonesian Minister of Agriculture. This policy reflects how the Indonesian government is of the view that foreign investment in agriculture should support agricultural production, job creation, and contribute to the prosperity of rural communities and the broader economy.

Australian government agriculture policy is similar but also a bit different – to boost Australia's productivity, jobs and exports and to encourage investment to ensure Australia remains a globally competitive agriculture producer. The reduction in the threshold to just AU\$15 million for Australian Foreign Investment Review Board (FIRB) review of purchase of Australian agricultural land by foreigners is seen as an impediment to Indonesian investment or co-investment in agriculture in Australia. IA-BPG notes that there are higher thresholds for purchases by companies from countries such as the US. IA-BPG recommends that Australia should allow the same thresholds for Indonesian agricultural investments as those allowed for other countries in existing trade agreements. FIRB thresholds for other classes of investment should similarly be benchmarked against those in other agreements.

FDI restrictions also hamper development in the mining and energy sectors. Investment uncertainty exists due to foreign ownership divestment regulations under the current Indonesian mining regime which has led to decreasing interest from foreign investors in Indonesia. Through Government Regulation No. 24/2012, foreign mining companies holding permits or special permits, known as IUP or IUPK, are required to divest between 20% and 51% of total shares to Indonesian stakeholders.

In the services sector, commercial presence of foreign services providers in Indonesia is not permitted without engaging local partners. This applies to all business services including lawyers, accountants, architects and consultants. Further, legal barriers can be found in the Negative Investment List which limits FDI in a number of key sectors such as transportation, health and education, as well as foreign labour restrictions which impede growth in services sectors.

Many companies lack access to capital, and especially during the global economic slowdown it is difficult to rely solely on domestic investment sources. Business opportunities can be more easily seized if there is available capital to support a company's operational capacities. Both countries should support business to target and activate investments that create the most value for the economy – i.e. those that are able to generate employment and stimulate productivity.



KEY ISSUES TO BE ADDRESSED TO ACCELERATE TRADE, INVESTMENT AND ECONOMIC COOPERATION

While there are many sector-specific and cross-sectoral barriers restricting trade and investment between both countries, the IA-BPG has also identified a number of more subtle but important issues that directly or indirectly impede trade, investment and economic cooperation. These issues may hinder the many opportunities presented by a stronger economic relationship between Indonesia and Australia. The IA-BPG understands that many of these issues go beyond the capacity of the IA-CEPA alone, but it is of the opinion that there are prospects for the IA-CEPA to lay the foundations for economic cooperation to overcome these issues.

➤ **MARKET FAILURE DUE TO LACK OF COMMUNICATION AND EXCHANGE OF INFORMATION**

Business practitioners from both countries have expressed a need for greater communication and information exchange regarding the available business opportunities in each country. Reliable information is an important element of business decision making, and uninformed parties are unlikely to be willing to invest in a new market.

Readily available information on consumer preferences, import-export conditions and requirements, as well as government policies and regulations would enable businesses to come up with the right strategies to meet consumer demands. This lack of information is a major hindrance to the increase of trade and investment cooperation. While a significant business relationship already exists between the two countries, business stakeholders feel that there is little in the way of organised and systematic business forums facilitated by government with the involvement of business associations. Such measures would further stimulate the interest of Indonesian businesses to enter the Australian market and vice versa.

As in 2012, Indonesian stakeholders continue to view Australia as a relatively small market with inscrutably complicated and stringent entry standards compared with other markets such as the EU or US. Moreover, Australia is seen as having closer relationships with Commonwealth countries such as Singapore and Malaysia.²⁸ Indonesian stakeholders also expressed a belief that the Australian market is more suited to premium products as consumers have high purchasing power. These perceptions create a strong reluctance among Indonesian businesses to engage in doing business in the Australian market.

On the other hand, Indonesia's complicated set of trade regulations is seen as one of the main obstacles for Australian businesses to engage in business in Indonesia. Considering the significant prospects which exist in both markets, businesses in both countries are in need of reliable and credible information on governmental regulations and market conditions, in order to attract further investment.

This lack of communication and information exchange also affects investment flows between both countries. Australian investors have expressed the need to be informed of the opportunities for investment and of the regulatory environment which exists through sector/group discussion sessions, seminars and tailored publications. While platforms for bilateral business cooperation

²⁸ Indonesia-Australia Business Partnership Group, "Position Paper: on Considerations Towards the Indonesia-Australia Comprehensive Economic Partnership Agreement," 2012.



already exist – the IA-BPG is one example – stakeholders have expressed a view that there is a lack of organised and systematic business forums facilitated by government, with the involvement of business associations, such as consultation forums or training for entrepreneurs.

Indonesian business people also regularly point to a need for enhanced capacity building among Indonesian public officials.²⁹ Performance of government officials in a particular sector may be a key factor in facilitating, or impeding, trade – therefore, government representatives are encouraged to develop close links with the private sector through regular consultations, facilitated through such communication forums, to develop the technical and practical knowledge required to facilitate trade activities and settle trade disputes.

A submission to IA-BPG proposed the establishment of a Jakarta-based centre of excellence to address various impediments to trade. While the initial focus will be bilateral trade between Australia and Indonesia, the opportunity exists to expand this concept and for the facility to become the regional centre of excellence for SEA and/or ASEAN. The centre should:

- Provide a regional facility for dialogue between the public and private sectors to identify and analyse impediments to bilateral trade, including those which impose additional costs on exporters and consumers;
- Provide Indonesian Customs (and subsequently other SEA administrations) with technical assistance and training in effective cross-border management practices and procedures;
- Address other identified cross-border priorities of IA-CEPA.

Appropriate technical assistance and capacity building would initially need to be provided to the Centre, including the provision of management development initiatives, technical training and mentoring.

➤ **FINANCING AND ACCESS TO CAPITAL**

As discussed above, both Indonesia and Australia rely heavily on foreign investment. Growth levels in both countries depend on high levels of investment, with the majority of investment coming from foreign sources. In Australia the Foreign Investment Review Board advises the Treasurer regarding foreign investment applications on a case-by-case basis with consideration to maximising the flow of investment that is not contrary to Australia's national interests. In Indonesia, the responsibility for managing foreign investment lies with the Indonesia Investment Coordination Board (BKPM).

Indonesia's economy, similar to Australia's, is significantly comprised of SMEs. SMEs are the biggest contributors to GDP growth. They account for more than 90% of Indonesian firms across all sectors and provide jobs for more than 90% of the workforce.³⁰ A major issue for SMEs in Indonesia is the lack of necessary investment and funding to scale up their businesses. Investments are also necessary to provide funding for the development of innovations in SMEs. A lack of financial resources and difficulty accessing finance are key factors that have hampered innovation in SMEs.

Improving access to capital will improve overall supplies of goods and services and help to meet demand; not only in Indonesia and Australia but also in other countries. Based on stakeholder

²⁹ Issue repeatedly raised during consultations with Indonesian stakeholders from all sectors.

³⁰ Ministry of Cooperatives and SMEs and the Indonesian Bureau of Statistics.



input, there is concern about Indonesia's domestic finance regulations as they relate to capital access. Foreign banks in Indonesia have been extremely concerned about an Indonesian Ministry of Telecommunications mandate from 2012 that all public services companies (including the banking sector) must process their transactions and data in onshore data centres.³¹ While the mandate will not come into effect until October 2019, and it is possible that the banking sector will be excluded from its operation, the issue is still one of considerable concern to industry.

Further, the Australian banking sector has expressed concern about the possibility of Indonesia's Financial Services Authority (OJK) adopting a policy to limit foreign ownership in the financial sector to around 40%. The policy would have a negative impact on investment in Indonesia at a time when foreign investment is needed.

Meanwhile, representatives from Indonesia's banking sector regularly refer to the significant difficulties faced in opening branches in Australia. In many respects, the problem stems from ineffective negotiations between the respective national banking regulators. The Indonesian Central Bank (BI) and the OJK do not usually pursue reciprocal arrangements for opening branches of Indonesian banks abroad. Additionally, Indonesian banking industry stakeholders have stated that they would require guarantees of streamlined access and a conducive regulatory regime to be able to proceed with opening operations in the Australian market.³² Facilitating access to the Australian market for Indonesian banks may trigger significant further engagement with Australia by Indonesian businesses.

➤ **INFRASTRUCTURE AND LOGISTICS**

Briefly mentioned previously, infrastructure development has cross-sectoral implications. Poor conditions of roads increase costs for transporting goods and contribute to food insecurity through product spoilage during transport. Power shortages reduce production capacities, and lack of access to clean water often becomes a source of disease. Improved infrastructure encourages business innovation and improves a country's global competitiveness. Conversely, high freight costs severely reduce a country's competitiveness in the global market.

To illustrate the point, Australian grain industry stakeholders point out that Australia's competitive freight advantage for wheat exports to Indonesia is being eroded by low oil prices and an over-supply of vessels. This has exposed inefficiencies in Australia's rail infrastructure which mean that it is now US\$5 per ton cheaper to transport grain from the Ukraine to Indonesia, than it is to transport grain 350 km by rail within Australia.³³ This creates a significant advantage for wheat exports from Black Sea countries to penetrate into the Indonesian market; which is Australia's largest wheat export market. An IA-CEPA could potentially assist alleviate this situation with more liberal shipping and servicing from Indonesia. Australian state governments have also acknowledged the need to improve rail infrastructure as the industry grapples with the urgency of improving its supply chain.

In terms of facilitating transport links between Australia and Indonesia, stakeholders in Australia's Northern Territory have pointed to a need for the Australian government to relax cabotage restrictions for new international flights servicing Northern and regional Australia. This

³¹ Australian submission from AIBC.

³² Forum Group Discussion consultations with Indonesian banking industry representatives conducted by IA-BPG.

³³ *Australian Financial Review*, 30 May 2016.



would complement the Australian government's commitment to the development of Northern Australia and other regional development policies. Future negotiations of Australia's and Indonesia's Air Access Agreements could sensibly form part of the IA-CEPA, so as to create new point-to-point air services between the two countries.³⁴ Indonesia is liberalising several sectors including logistics under AEC and similar provisions should be considered under IA-CEPA.

Logistics is a vital element for economic performance. In Indonesia, logistics, transportation infrastructure, and transportation services are high-priority and especially challenging issues. Indonesia's geography and the distribution of industry and resources pose a major challenge for efficient and low-cost logistics. Approximately 60% of the population of about 240 million people live on Java while the remaining 40% are distributed among 6,000 inhabited islands; many of which are very sparsely populated. Manufacturing is also centred in Java, while natural resources production is widely spread over the archipelago.

Current shipping services require most Australian exports to eastern Indonesia to be transshipped via Java or Singapore, creating significant and obvious inefficiencies. Trans-shipment arrangements and rules should be trade facilitative to ensure supply chains can operate efficiently. Customs Pre-Inspection Facilities, such as one which was established in Darwin in 2005 and later suspended, may provide an important means for facilitating efficient international trade between the two countries. The Darwin-based Indonesian customs facility was able to clear customs requirements for exports to all ports in Indonesia. Reciprocal arrangements for customs pre-inspection facilities for all ports in both countries would have the potential to greatly facilitate increased bilateral trade.

Shipping cabotage is strictly applied in both countries, with Indonesia also mandating local construction of vessels. IA-CEPA negotiations could tackle this difficult issue with a view to offering each nation access to the other's domestic shipping in the context of building much stronger shipping links between the two economies.

Mandating of locally constructed ships by Indonesia severely limits its ability to improve shipping efficiency with state-of-the-art fast ferries, where Australian companies are leading suppliers via yards in Australia, the US and the Philippines. Given that Indonesia is a major supplier of vessels and modules for Australian oil and gas projects, it is reasonable for Australia to have access to the fast ferry market in Indonesia.

Investment in port infrastructure and logistics will follow on from the confidence generated by sound trade rules, and solid and growing trade volumes. It should be noted that Indonesia's current administration has prioritised infrastructure development. Throughout Indonesia, the ambition is to construct new dams and roads, railways, airports, etc. to facilitate the movement of goods and persons. As discussed above, the existence of good infrastructure will create positive economic knock-on effects; and creates significant opportunities for Australian investment in Indonesian infrastructure projects. IA-CEPA should consider removing barriers to infrastructure cooperation between businesses in Indonesia and Australia.

³⁴ Submission from Chamber of Commerce of the Northern Territory.



➤ **FOSTERING SMALL AND MEDIUM ENTERPRISES**

SMEs are often threatened by concessional cross-border trade agreements as they see new competitors enter the market. This view was repeatedly expressed by Indonesian stakeholders during consultations, indicating a lack of belief on the part of Indonesian SMEs in the benefits of trade liberalisation. Similar concerns also arise among Australian SMEs fearing unfair competition from developing countries with more lax labour and tax regulations and standards enabling them to produce at lower costs. Consequently, the IA-CEPA should address the importance of SMEs through deeper involvement and engagement. SMEs should be well informed on the potential benefits from trade liberalisation and participating in global supply chains.

SMEs need support both to participate in opportunities generated by the IA-CEPA (and other agreements like AEC and AANZFTA), and for adjustment to deal with enhanced levels of competition. As the IA-CEPA recognises, the different levels of development of Indonesia and Australia may require differentiated responses, including capacity-building and adjustment arrangements.

Businesses, especially SMEs, have reported difficulties obtaining information on market opportunities required to build sound business strategies and planning. Indonesian regulatory frameworks do not sufficiently differentiate between SMEs and larger enterprises. “Sunk costs” to open a business in Indonesia are too high across the board for SMEs and red tape and lengthy establishment procedures result in some businesses commencing operations in competitor countries such as Malaysia. Many SMEs from Australia explain that the lack of transparency is one of the factors hindering them from increased trade.³⁵ In terms of export and import regulations, SMEs often find non-transparent elements which are not only time consuming, but also impose unfeasibly high costs.

Australian SMEs object that import licensing procedures in Indonesia are complicated and often inefficient, such as those arising from a simple change of address of an SME. While Indonesian stakeholders point out that Australia’s quarantine system creates higher costs and risks for Indonesian exporters, especially SMEs, which discourages trade with Australia.

³⁵ Australian submission from AIBC.



Chapter 3

OTHER SUBJECTS FOR DISCUSSION IN THE IA-CEPA

The following subjects have been raised by a number of stakeholders during the consultation process. The IA-BPG believes that further discussions on these subjects may be required and developed in more detail by an expert committee as the IA-CEPA negotiations take place.

GOVERNMENT PROCUREMENT

Government procurement processes should be transparent and non-discriminative. Governments should consider progressively granting fair and equitable access to government procurement.

Government procurement should promote transparency, value for money, open and effective competition, fair dealing, accountability and due process, and be non-discriminative in its decision making. Opportunities for increased cooperation and issues which can be addressed in discussions on the nature and scope of any provisions could include:

- Consultation mechanisms
- Suppliers' rights
- Principles of non-discrimination and their application
- Coverage of any agreement
- Minimum procedure requirements in respect of procurement processes.

Given that government procurement did not feature under the AANZFTA, the IA-CEPA may prove an appropriate context in which to develop bilateral disciplines in this area.

RULES OF ORIGIN

In order to exclude non-parties from the agreement it is necessary to establish a system of determining the origin of goods in order to apply the correct tariff concessions. The 2006 Revised Kyoto Convention on Simplification and Harmonisation of Customs Procedures and implementation of the WTO Trade Facilitation Agreement will help reduce the level of complexity and regulation for those involved with international goods trade. Consistency with these two global agreements will



ensure low cost and simple compliance. They also create a challenge for IA-CEPA to go beyond what is already available under existing and potential agreements. The IA-BPG supports the system used within AANZFTA including the use of certificates of origin as a verification system – inclusive of the First Protocol amendments.

It is in the best interests of business to pursue coherence and consistency with ASEAN Rules of Origin as much as possible, but also seek to simplify administration with the objective to facilitate ease of use and economies of scale for business, in particular SMEs.

As Indonesia and Australia are already partners in AANZFTA, and as one agreement does not supersede the other, there is good reason for government and business to remain consistent with the AANZFTA approach. This is preferable to establishing another system under the IA-CEPA which would potentially create confusion and variation for business and the customs service.

However, IA-BPG is supportive of the application of a risk-based approach to customs' acceptance of certificates of origin. That is, provided both nations have confidence in the system, customs offices need only review a statistically relevant number of the certificates to ensure scheme integrity according to a risk profile of the goods in question. Other administrative simplification is also desirable for business.

Such an approach would be beneficial to business as it would decrease the time taken to complete the border crossing and so reduce costs.

DISPUTE SETTLEMENT MECHANISM

To further enhance cooperation in trade and investment, it is imperative to establish fair, transparent, timely and effective procedures to facilitate settlement of commercial disputes. Both Indonesia and Australia see the importance of setting up dispute resolution mechanisms that are efficient and enforceable.

At present, there is a major legal deterrent to foreign investment in Indonesia, namely inefficiency in the court system. The uncertainty of legal protection in Indonesia is experienced not only by foreign investors in the country, but also by Indonesian businesses. There is a clear need for a simple and direct mechanism to resolve disputes.

There is an agreed dispute settlement mechanism within AANZFTA and the IA-CEPA should not vary from this. Business is also able to take advantage of mechanisms such as those offered by ICC, UNCITRAL, ICSID, ITC, etc which all offer model clauses and contracts and then dispute processes using both mediation and arbitration.

However there may be advantages in expanding the settlement of disputes by mediation, which may provide a more cost and time efficient alternative to litigation, and this should be considered for inclusion under the provisions of the IA-CEPA, or alongside it.

As well as arbitration mechanisms, a mechanism for settlement of disputes by mediation, which may provide a more cost and time efficient alternative to litigation should be considered for inclusion under the provisions of the IA-CEPA. Mediation may offer several advantages in the context of IA-CEPA, for example:

- Mediations can be arranged, prepared and conducted to a conclusion in days or weeks, not months or years as in the case of adversarial procedures. As a non-legal process, mediation is



capable of crossing borders and does not have the legal and jurisdictional constraints inherent in adversarial proceedings.

- The procedure is adaptable to fundamental tenets of Indonesian culture such as “*musyawarah*” – the tradition of amicable discussion and consensus among Indonesian people.
- Mediation can be used as an adjunct to any dispute resolution process at any stage of any dispute. There can be multiple mediations within the one major dispute or mediation of part only of any dispute.
- Even where mediation doesn’t achieve a final result it can achieve a significant narrowing or shortening of the dispute.
- Because the parties control the process and reach their own agreement mediation is generally perceived to be fair.

To emphasise the sensitivity of Investor State Dispute Settlement (ISDS), both parties should agree that dispute settlement is the last resort when direct negotiation or mediation cannot reach a mutually acceptable output. ISDS should be carefully crafted and does not single out any particular goods or sectors.

There are opportunities for joint capacity building for legal professionals and government officials in dispute resolution.

PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

Protection and enforcement of intellectual property rights (IPR) are essential for safeguarding innovation and creativity and sustaining economic development in the information age. Despite being a signatory to numerous IPR protection agreements, concerns remain regarding the protection of IPR in Indonesia. There are still rampant infringements of IPR in the field, including piracy, pharmaceutical patent infringement, apparel trademark counterfeiting and an inconsistent enforcement regime.

This situation significantly discourages investment flows from foreign firms and limits access for Indonesian businesses to research and technology which is lacking. The IA-CEPA could strengthen protection in this area by establishing a sound framework for capacity building, including raising awareness on the importance of IPR protection for economic development.

The capacity of SMEs to manage IPR is also a key area of concern. SMEs are reportedly not prepared to maximise the economic benefits of IPR, such as protecting, selling and licensing rights. The IA-CEPA should include frameworks for capacity building on managing IPR as a way to boost innovation among SMEs.

Australia and Indonesia are signatories to the WTO TRIPs agreement. As piracy and counterfeiting are still major problems in Indonesia, there is a need for capacity development to enforce IPR protection for investors and manufacturers in order to gain greater investor confidence. IPR protection is needed across all forms of intellectual property which include copyright and related rights, trademarks, geographical indications, industrial designs, patents, integrated circuit layout-designs and undisclosed information.³⁶

³⁶ http://www.wto.org/english/tratop_e/trips_e/tripfq_e.htm.



COMPETITION POLICY

The ongoing implementation of competition policy is a vital component of reforms to the Indonesian economy that are necessary to attract investment and underpin economic growth.

Government policy and legislation to ensure competitive practices and independent rivalry in the market can provide significant benefits to consumers and encourage investment and economic growth. Benefits may include better prices and variety of products for consumers, protection for businesses from corrupt, unfair or anti-competitive practices, better quality products through increased research, development and innovation, increased product safety and truthfulness in product claims.

There are opportunities for capacity building within agencies involved in market design and competition regulation, and for access to high level Australian services capabilities in these fields. Capacity building and knowledge exchange can take place between the competition authorities of both countries, i.e. the ACCC³⁷ and the KPPU³⁸, to assist in prevention of anti-competitive practices and the detection and prosecution of conduct which breaches competition laws.

³⁷ ACCC – Australian Competition and Consumer Commission.

³⁸ KPPU – *Komisi Pengawas Persaingan Usaha*/ Indonesian Business Competition Supervisory Commission



Chapter 4

STRATEGIC MODELS FOR PARTNERSHIP

KEY OPPORTUNITIES FOR THE IA-CEPA

The IA-BPG has identified some key opportunities for partnerships that can be developed between Indonesia and Australia. As mentioned above, the two countries have resources and capacities that are complementary. The IA-CEPA should go beyond conventional trade agreements by seeking ways to maximise this complementarity and enable both countries to succeed together as partners. Thus, economic partnership opportunities should encompass, in summary:

1. **Developing cross-border, integrated industries and value chains** in both goods and services that utilise the comparative advantages of each country to supply both domestic and third-country markets in the AEC, EU, UK, US and China, that neither country could achieve on its own.
2. **Building two-way investments**, enhancing Australian investments in Indonesia and encouraging Indonesian long-term investments in Australia. This should be achieved by developing competitive markets, lowering barriers, reducing risks and promoting investment opportunities, including joint ventures.
3. **Enabling greater sharing of knowledge and technology** through harmonising standards and regulations; recognising qualifications; recognising intellectual property rights; establishing dispute resolution mechanisms; building education, training and professional development cooperation; facilitating joint ventures and business licensing; and encouraging movement of skilled people between the two countries.
4. **Facilitating economic cooperation through an enhanced program of development assistance** that is focused on building economic capacity, developing skills, sharing market information, enabling market access, facilitating development of value chains, building local businesses and enhancing cooperation between government development assistance activities and the private sector.
5. **Acknowledging the direct link between investment in the services sector and capacity building**, through enhanced formal education and training, on-the-job learning and professional development, technology transfer and knowledge 'spillovers' that flow from the presence of international services firms.



6. Businesses in both countries have expressed the immense opportunities that exist for enhanced **business collaboration and deeper partnerships between Indonesia and Australia in key sectors**. Hurdles remain, however, which the IA-CEPA should address so that gains from trade liberalisation will be the greatest and the partnership potentials fully fulfilled. The IA-BPG believes that opportunities can and should be prioritised in sectors where quick and visible outcomes are the most attainable.
7. **Preferential treatment.** To work well to the benefit of Indonesia and Australia, the IA-CEPA must be overtly preferential. Australia and Indonesia should provide mutual preferential treatment in trade and investment. Where possible, Indonesia and Australia should declare and activate trade and investment preferences that operate above other preferential arrangements.
8. **Taking advantage of Indonesia's Special Economic Zones (SEZ) whenever possible.** Existing and future SEZs could provide excellent venues for investment and collaboration, unrestricted by regulations applied elsewhere in Indonesia. Projects which successfully utilise Indonesian SEZs could serve as examples to publicise and develop further SEZs elsewhere. The IA-BPG takes a very positive view of such proposals, but notes that many current SEZs are located well away from centres of population and therefore markets. IA-CEPA SEZs could be developed and implemented as a way to create faster delivery of liberalisation in priority sectors or regions.

IA-BPG identified six specific sectors where significant potential exists for cross-border economic engagement and where benefits may be realised within a relatively short time-frame. Each of the six sectors is discussed in detail below.



OPPORTUNITIES FOR EXPANDING TOURISM AND ENHANCING HOSPITALITY

The tourism and hospitality sectors in Indonesia and Australia continue to experience steady growth. In 2015, international arrivals to Australia increased 8% from the previous year.³⁹ Meanwhile, foreign tourist arrivals in Indonesia have increased significantly in the last decade, nearly doubling in number from 5.51 million arrivals in 2007 to 9.73 million in 2015.⁴⁰ Foreign arrivals are expected to reach the Indonesian government target of 20 million per year by 2020.

ASEAN's rising middle class presents an opportunity for both Indonesian and Australian tourism exports. The similarity of activities and experiences available in Indonesia and Australia offer strong potential for tourism and hospitality businesses – especially small and medium-sized enterprises – to partner and expand their markets.

The investment potential for tourism and hospitality in Indonesia – especially for infrastructure developments, hotels, and Public Private Partnerships – is high. This investment is expected to move towards new destinations in Indonesia, whether established as special economic/tourism zones or not, such as Lombok, Tanjung Lesung, Bunaken, Labuan Bajo, Komodo, Derawan, Wakatobi or Toba. It should be noted that 10 SEZs have been proposed for tourism, and three of those have already been accepted. These SEZs provide the opportunity for more unrestricted investments from Australia to Indonesia.

RECOMMENDATIONS

- A freer movement of natural persons would boost the capabilities of businesses from both countries to expand in the tourism and hospitality sector. Indonesia has already applied a 30-day visa-free entry mechanism for 169 countries including Australia, while Australia has begun to provide greater flexibility for Indonesian citizens with the option to apply for a three-year multi-entry visitor visa. More can be achieved by Australia however, and the IA-BPG believes that tourism from Indonesia to Australia as well as the movement of skilled workers between both countries must be facilitated as much as possible to support the tourism sector.
- Skills and training, notably through the Skills Exchange program between Indonesia and Australia, should be further developed. The improvement of human resources and skilled hospitality personnel is a high priority for the Indonesian tourism sector. With the introduction of the AEC, high-quality tourism professionals are needed so that Indonesia can maintain its competitive edge. Tourism is a sector where Australia has tremendous knowledge and can thus contribute towards capacity building in Indonesia.

³⁹ http://www.tourism.australia.com/documents/Statistics/TAINT10315_International_Market_Update_March_2016.pdf

⁴⁰ <http://www.indonesia-investments.com/business/industries-sectors/tourism/item6051>.



OPPORTUNITIES FOR SECURING DOMESTIC FOOD AVAILABILITY AND PARTICIPATION IN GLOBAL FOOD SUPPLY

The rise in Indonesia's middle class and increasing concentration of the population in urban areas (projected to reach 71% by 2050) contribute to some of the food availability challenges faced by the country. The value of food consumption in Indonesia is projected to quadruple between 2009 and 2050 but local food production is only expected to double. This leaves a significant gap to be filled by foreign imports, especially of high-value produce.⁴¹

The IA-CEPA negotiations should take into consideration that the assumption that food security in Indonesia can be achieved through food self-sufficiency is flawed. Food availability can be realised much more quickly and reliably through cooperation. Indonesia's food availability problem is significantly due to low productivity. Australia, on the other hand, is capable of producing enough high quality food for 60 million people⁴² thanks to its world-class agricultural expertise and productivity levels. By working together, Australia and Indonesia can help each other meet their agriculture and food objectives. Hence, there is much potential for investing in agribusiness innovation and research in both nations to increase productivity and secure food availability.

Australia and Indonesia should work together to create agricultural systems designed to meet food security. In the longer term, however, there are greater opportunities for Indonesia and Australia to collaborate in accessing third markets. In the interim, one of the market and capacity-building strategies is for Indonesia to develop high value agriculture supply chains to Australia.

The Indonesia Australia Partnership on Food Security in the Red Meat and Cattle Sector is an example of how stronger business partnerships can be created and that IA-BPG hopes will lead to building competitive advantages in delivery to third markets.⁴³ Due to the relatively high cost of beef in Indonesia, only about 20% of households are occasional consumers. The latent demand from the other 80% can only be met by locally produced beef. This is an opportunity for both countries to pay even greater attention to capacity-building and joint ventures in-market. Other sectors could benefit from similar initiatives.

Sugar, for instance, presents such opportunities. Indonesian businesses have expressed that more investments in on-farm and off-farm technologies to increase productivity, in sugar refinery and in technology and knowledge transfer, can bolster quality standards and enable Indonesia to access Australian markets, and potentially global markets.⁴⁴ Australia is able to cooperate with Indonesia in building capacity in sugar production, while Indonesia should ensure that Australian sugar competes on a level playing field with ASEAN producers. A reduction in the tariff that applies to Australian imports of raw sugar to a level equivalent to that applied to Thailand would ensure Indonesian refiners would continue to be able to source raw sugar imports from Australia and they and food manufacturers maintain access to a competitive high quality alternative source of supply.⁴⁵

⁴¹ Horizon report by Perth USAsia Centre, May 2016.

⁴² PMSEIC (2010). Australia and Food Security in a Changing World, The Prime Minister's Science, Engineering and Innovation Council, Canberra, Australia.

⁴³ Succeeding Together: Maximising the potential for joint opportunities between Australia and Indonesia.

⁴⁴ Interviews with Asosiasi Gula Indonesia (the Indonesian Sugar Association) and Asosiasi Gula Rafinasi Indonesia (the Refined Sugar Association of Indonesia).

⁴⁵ Submission from the Australian Sugar Industry Alliance.



Similar approaches could be applied to other products such as tropical fruits and coffee from Indonesia to Australia or grain from Australia to Indonesia. GrainGrowers, for example, have proposed the establishment of a Centre of Australian Grain within an Indonesian university that would teach a number of courses related to the use of grains. Courses could include Australian baking and noodle making know-how, wheat milling, and grain storage and testing. The Centre could undertake strategic projects by academics and post-grad students in cooperation with the Australian Export Grains Innovation Centre.⁴⁶

The IA-BPG commends these types of initiatives, which are in line with its 2012 “A Healthy Diet” pilot project proposal. However, remaining tariffs, free trade exemptions, trade restrictions, technical barriers and quarantine procedures still present a barriers to achieving the full potential of global value chains in agriculture.

RECOMMENDATIONS

- Facilitate preferential treatment between both countries for trade in food products. For instance the horticulture trade provisions of the Thailand-Australia FTA can provide a precedent, including in facilitating Thai exports of fruit to Australia. The agreement between New Zealand and Indonesia in June 2016 to cooperate and facilitate access for Indonesian agricultural products to New Zealand, particularly for tropical fruits, can serve as another example.
- To tackle issues of differing standards, both countries should also adopt similar *Codex Alimentarius* standards as much as possible.
- To expand the red meat and cattle partnership, and to apply a similar approach to other sectors of mutual interest such a grains, seafood, and horticultural products.

⁴⁶ Submission by GrainGrowers.



OPPORTUNITIES FOR HUMAN CAPITAL DEVELOPMENT THROUGH ADVANCED EDUCATION AND TRAINING

A significant barrier for movement of natural persons from Indonesia to Australia is the high level of standards and certification demanded by Australian businesses. Investing in human capital in Indonesia through joint investments in higher education and training facilities and personnel from Australia is a mutually beneficial opportunity that promotes both Australian certification and standards training, and domestic investment within Indonesia that can be utilised in both countries, and globally. Partnerships between higher education establishments, for example the introduction of “double degrees” for certain professions, can promote cross border movement and encourage growth in specific sectors. Areas with high potential for return with this approach include medical research, where outcomes may be commercialised, the nursing profession, which is chronically understaffed in Australia, agribusiness, and tourism.

Joint programs in nursing, accounting, tourism, legal services, engineering, and the maritime sector need to be intensified. For instance, Indonesian nurses require capacity building to attain Internationally Qualified Nurse Certification which is globally recognised. For the legal profession in Indonesia, training could become a starting point before fully opening the sector to Australian lawyers.

The Vocational Education and Training (VET) sector is underdeveloped in Indonesia, particularly relative to the large latent demand for workers with VET skills.. In December 2011, TAFE Directors Australia (TDA) initiated a project focusing on the Indonesian VET sector and its engagement with business and industry. This project was supported by the Governments of Indonesia and Australia, and business. One of the proposals arising from this project was for a new public-private model for Indonesian VET. In September 2013, TDA and the Indonesia Australia Business Council (IABC) co-hosted the inaugural Indonesia Australia Industry Skills Training Roundtable in Jakarta. However, the project subsequently stalled for several reasons, including cuts and reprioritisation of the Australian government aid budget. There remains a clear need for an Indonesia-Australia partnership to help build public-private VET networks which presents significant opportunities for the industry. This needs to be based on an internationally-recognised qualifications framework and consistent curricula.

There is an opportunity to invest in higher education in Indonesia since many universities are privately-owned. On the other hand, Australia also welcomes Indonesian institutions to invest in the education sector. It should be noted, however, that there are major restrictions on investments in VET and Universities in Indonesia. Furthermore the movement of people still faces challenges as it is difficult to bring in academics and trainers from Australia to Indonesia, which impacts on the availability of high quality academic teaching and training.



RECOMMENDATIONS

The IA-CEPA and allied projects should include measures to encourage universities to work more closely together in teaching, learning and research, including joint degree programs and joint research activities and centres. As well, the IA-CEPA should include:

- Provisions for opening the university sector for foreign investments.
- Provisions for opening the training sector to allow for resourcing of much-increased school to university transition programs.
- Provisions for cooperation and capacity-building in the VET sector to enable it to better train skilled workers to international standards.
- Provisions for movement of skilled people to undertake research and conduct teaching.



OPPORTUNITIES FOR IMPROVING HEALTH AND QUALITY OF LIFE

Indonesia's healthcare industry continues to experience good levels of growth, in all areas including hospitals, medical insurance and medical devices. In 2016, 60% of hospitals in Indonesia were government owned and operated, with the remaining 40% run by the private sector.

The Indonesian government's willingness to work with foreign investors in the healthcare sector is a significant step towards reducing the health spending by Indonesian citizens abroad – for example, in Singapore and Malaysia. New regulations have opened up some business sectors within the healthcare industry to 100% foreign investment, including pharmaceutical raw materials, business and management consulting services, and healthcare support services which includes medical equipment rental, laboratory clinics and medical check-up clinics. As Indonesia is still heavily reliant on imports of pharmaceutical raw materials and medical equipment, this provides a key opportunity for foreign investors.

Investments in high-quality hospitals are highly sought after in Indonesia, and Australian healthcare providers can help Indonesia develop world-class healthcare services, including hospitals, clinics and aged and disability care. Australian companies led by Ramsay Healthcare are major investors in the Indonesian healthcare sector and have started to provide world-class services to Indonesian consumers. The IA-BPG welcomes the regulatory adjustments which allow 100% foreign ownership in some sectors of healthcare, although there are still restrictions in place for foreign doctors to practice in Indonesia.

Within the healthcare industry, Indonesia's affordable human resources is a strength that can be utilised to great benefit by Australia. Due to Australia's ageing population, demand for skilled healthcare professionals, especially in the nursing profession, is rising. Investment in personnel training and facilitating movement of skilled professionals in this sector is a potential strategy to combat this future need, as Indonesian labour can fill in the gap in Australia's demand.

RECOMMENDATIONS

- To focus on exchange programs in healthcare as a way to rapidly increase capacity and expertise of doctors from both countries.
- To relax restrictions on movement of people, so as to help build capacity and increase the overall quality of healthcare services in Indonesia. For instance, Australian doctors and nurse trainers providing training in Indonesia are severely limited by Indonesian regulations such as to handle patients even in the context of training. These restrictions need to be eased to enable effective capacity-building.
- Open up opportunities for investment in hospitals and healthcare facilities.



OPPORTUNITIES FOR ACCELERATING DIGITAL ECONOMY, E-COMMERCE AND CREATIVE INDUSTRY

IA-CEPA should address the opportunities created by the digital economy, e-commerce and creative industries, and include mechanisms to facilitate cross-border growth of these sectors as well as application of e-commerce to all trade. IA-BPG notes that the AANZFTA chapter on e-commerce is limited in scope and IA-CEPA needs to take a comprehensive approach.

The global digital revolution and shifting industry profiles in Australia and Indonesia increase the numbers of and need for innovative, technology based companies.

Indonesia is one of the top places in the world for developing apps, and has one of the fastest growing app markets in the world. The size of the Indonesian entertainment and media market in 2013 was US\$10.2 billion, with the fastest growing segment shown to be internet advertising. Newspaper publishing in 2013 accounted for 34.3% of market spending, with revenues of US\$3.5 billion.⁴⁷ It has been predicted that Indonesia will outpace overall growth in entertainment and media spending both across the Asia Pacific and globally through 2018.

Electronic commerce provides a significant opportunity to provide a platform for trade for small and medium sized enterprises in Indonesia and Australia. E-commerce will be increasingly important for business to be able to access global markets. E-commerce is also an important sector in its own right for Indonesia and Australia to develop and harmonise. It is therefore important that electronic commerce is provided with a significant boost in IA-CEPA. Measures could include trade rules that foster confidence in the on-line environment and limit the ability to put up roadblocks to such trade in the future.

In line with RCEP discussions on e-commerce, the IA-CEPA will need to adopt rules that enable information flows and prohibit data localisation, allow the cross-border provision of services, encourage the growth of online businesses, make it easy for SMEs and users to get online, and enable the usage of simple online payment systems.

Business cooperation should be enhanced to gain advantages in the digital economy sector. Mitrais, an Indonesian ICT company with a presence in Australia and South East Asia is a success story showcasing the potential of business cooperation and expansion in this sector. An Indonesia-Australia digital economy summit should be established as a way to bring investors together, not only from both countries but also from other countries.

Nevertheless, the Indonesian Internet Service Providers Association (APJII) has stated that they still need more access to foreign investment for their members, which are mostly SMEs.⁴⁸ Foreign investments in internet service providers are limited to 67%. Furthermore, although the recent DNI list allows 100% foreign ownership in e-commerce with capital investments above IDR100 billion, it still places restrictions on foreign ownership in e-commerce systems for investments under IDR100 billion (approximately AUD10 million) which hamper investment by SMEs. The IA-CEPA should encourage two-way investments in the digital economy sector including e-commerce and creative industry to boost investment and growth of SMEs. On the other hand, data sovereignty is known as a security-related issue in Indonesia. In this respect, the Indonesian government requires data centres

⁴⁷ <https://www.pwc.com/gx/en/global-entertainment-media-outlook/hot-topics/assets/pwc-indonesia-summary.pdf>.

⁴⁸ Interview with *Asosiasi Penyelenggara Jasa Internet Indonesia* (the Indonesian Internet Service Providers Association).



to be located in Indonesia, which has caused concerns from the banking sector as well as the ICT sector in general.

Vast opportunities exist in the creative industry. According to the Indonesian Creative Economy Agency, the creative industry contributes IDR 642 trillion or 7.05% of Indonesia's GDP. The key contributors are culinary business, fashion, and handicrafts with 32.4%, 27.9%, and 14.9% contribution respectively. Considering that Australia has one of the most sophisticated arts and creative sectors in the world, Indonesia and Australia can cooperate on design and manufacturing to improve the export capabilities of Indonesian products while creating stronger business and people-to-people linkages between Australia and Indonesia.

For instance, more than four million Indonesians and 220,000 Australians work in the fashion sector, adding AU\$12 billion to Australia's economy each year. Indonesia's exports of fashion products have grown exponentially in the last five years. A total of 25 Indonesian fashion entrepreneurs have received scholarships to attend the two-week International Business Readiness program in Queensland, while established designers in both countries have been supported to showcase their work at premier fashion events in Jakarta and Melbourne. One of these emerging Indonesian designers, Toton, will compete for the Australian-founded International Woolmark Prize in Paris later this year.

RECOMMENDATIONS

IA-BPG recommends that IA-CEPA e-commerce, digital and creative industry measures should include:

- Trade rules that foster confidence in the on-line environment and limit the ability to put up roadblocks to such trade in the future. In particular the IA-CEPA will need to adopt rules that enable information flows and prohibit data localisation, allow the cross-border provision of services, encourage the growth of online businesses, make it easy for SMEs and users to get online, and enable the usage of simple online payment systems.
- Building a harmonised, borderless system for conduct and regulation of e-commerce
- Consider training and capacity-building requirements for both governments and business to utilise e-commerce.
- As a principle, the IA-CEPA should support the free-flow of information while respecting personal information security concerns as much as possible. Governments should not seek to create treaty terms where contract law is sufficient.
- To create an environment that supports industries in the digital economy sector, especially SMEs, by allowing freer flow of investment and people and removing any remaining foreign ownership restrictions in digital sector.



OPPORTUNITIES IN INFRASTRUCTURE AND ENERGY

Infrastructure in Indonesia is generally lacking in quality and quantity. Indonesian business feels that the availability of reliable infrastructure primarily affects supply chains and logistics, creating increasingly high production costs, which leads to higher and less competitive product prices. Indonesia's current administration is pushing for infrastructure development with ambitions to construct new dams and roads, railways, airports, etc. to facilitate the movement of goods and people. Additionally, the government plans to build 35GW of electricity infrastructure to support the country's growing energy needs. The Indonesian Government has set a target of 25% renewable and 25% gas-fired generation.

Governments and the private sector are already exploring the opportunities for cross border gas and electricity grid connections and international electricity markets in Southeast Asia based on experiences in Europe and elsewhere. It could be possible for IA-CEPA to encourage investigation of a grid connected electricity market with energy supply from Australia to Indonesia and beyond.⁴⁹

Naturally, improved infrastructure will have positive knock-on effects for the Indonesian economy. Australia is one of the world's largest energy suppliers and has access to abundant renewable energy resources in solar and wind. Australia has developed technologies and expertise in operating renewable and hybrid power systems that may be eminently suited to adaptation for Indonesia's islands. Australia also has significant infrastructure requirements and an emphasis on developing Northern Australia. Both countries are also striving to reduce their use of fossil fuels and greenhouse gas emissions in line with the Paris Agreements on Climate Change. These common and mutually supportive interests could be harnessed through IA-CEPA.

With regards to IA-CEPA, Indonesia's plan for massive expenditure on infrastructure should create an ideal opportunity for Australia to deepen its cooperation with Indonesia. While Indonesia needs better infrastructure, Australia can invest and provide expertise to achieve a common benefit. Opportunities include cooperation in infrastructure such as building toll roads, developing ports, designing and supplying remote power systems, and cooperating with the banking sectors for financing and asset management.

Australian financial institutions, infrastructure consulting firms and government infrastructure agencies have world-class expertise in public-private partnerships to deliver infrastructure. But the potential for cooperation is inhibited by lack of knowledge of the opportunities and how to operate in Indonesia, and by lack of trust in the operating environment, as well as barriers to operation of foreign companies and to movement of people.

Other inhibitors to greater Australia-Indonesia cooperation in infrastructure identified by the AIBC through its IA Infrastructure Dialogue initiative include:

- Uncertain processes at all stages of project design, contracting, delivery and operation
- Severe restrictions on provision of services to infrastructure delivery, either through the Negative Investment List or regulation by Ministries, including restrictions on the operation of financial services and professional services firms with the required capacity
- Restrictions on engagement of expatriate professionals necessary to deliver expertise and capacity for complex infrastructure projects.

⁴⁹ Submission from Chamber of Commerce of the Northern Territory.



RECOMMENDATIONS

To be able to fully embrace opportunities in the infrastructure and energy sector, the IA-BPG:

- Encourages both Governments to jointly create an Indonesia-Australia PPP Centre, which would help fulfil Indonesia's need for high quality design, structuring and documentation of projects on offer. Such a centre working closely with BKPM would streamline investment and workflow in this crucial sector. Examples of similar centres recently created exist in the Philippines with Australian assistance and regional examples exist such as the Makassar PPP centre.
- Find mechanisms to ensure Australian involvement in PPP projects without having to go through international competitive tender requirements.
- Establish G-to-G platforms such as an MoU on a specific infrastructure project.
- Encourages both governments to remain open to receiving unsolicited bids for regional development and infrastructure projects from the private sector which they have identified unilaterally.
- Recommends that all classes of infrastructure need to be more open to foreign investments.



INDONESIA AUSTRALIA
BUSINESS COUNCIL



AiGROUP



AUSTRALIA INDONESIA
BUSINESS COUNCIL



Australian
Chamber of Commerce
and Industry

ANNEXES



Annex 1

INDONESIA-AUSTRALIA ECONOMIC RELATIONS: AN ANALYSIS⁵⁰

The purpose of this analysis is to provide historical context and a critical examination of the economic relations between Australia and Indonesia. It will do this by analysing the economic performance of the two countries taking account of the dynamic socio-political context, trade relations, people-to-people relations, and multi-dimensional regional economic relations.

BRIEF OVERVIEW OF INDONESIA-AUSTRALIA ECONOMIC RELATIONSHIP

Indonesia and Australia are neighbouring countries with differing levels of development and population. Indonesia is a densely populated, developing country with an abundance of unskilled labour, whereas Australia is a developed country with a relatively sparse population, and an abundance of skilled labour. However, despite being a lower-middle-income country, Indonesia's economic growth and inflation rates are higher than Australia's. Both countries are rich in agricultural products, minerals and resources such as coal, steel, iron, tin and inorganic chemicals, making their economic growth acceleration pattern follow that of global commodity price movements. Indonesia's trade surplus in agricultural products mostly comes from non-food related commodities, while Australia gains its surplus from food-related products. Indonesia and Australia both produce products that the other needs, providing an excellent opportunity for each of them to build strong trade relations with each other (Crawford, 1935, Hill, 1990, 2000; Mackie, 2007; Resosudarmo, Verico, Pasaribu, 2015). Together, Indonesia and Australia would be the ninth largest economy in the world. Indonesia is one of the fastest growing economies in the developing world (currently third only to China and India in annual growth), while Australia is the fastest growing OECD economy.

Indonesia and Australia have achieved significant progress on a number of important non-trade bilateral issues. However, progress in business to business relations, especially in trade and investment, has been far more limited (Indonesia-Australia Business Partnership Group, 2012). The bilateral trade and investment performance of the two economies way underperforms their potential, despite Indonesia and Australia being neighbours and despite their economic complementarities.

Consequently, in recent years, Indonesia has aimed to enhance economic relations with Australia as part of a general pursuit of bilateral economic agreements with countries⁵¹ with which, in the past, it had low levels of trade and investment. In addition to the bilateral negotiation for the IA-CEPA, the

⁵⁰ This analysis was prepared by Kiki Verico, PhD. (Faculty of Economics and Business, University of Indonesia) for the IA-BPG and thank you for Professor Anwar Nasution for his invaluable inputs and advice on this section.

⁵¹ Two Indonesian bilateral trade agreements currently in force are: (1) IJEPA (*Indonesia-Japan Economic Partnership Agreement*) in 2008 which covers trade in goods and services, and investment and (2) IPPTA (*Indonesia-Pakistan Preferential Trade Agreement*) in 2014 which focuses only on trade in goods and services. Five bilateral agreements are currently in negotiations. They are (1) Indonesia-Korea Comprehensive Economic Partnership Agreement (IK-CEPA), (2) Indonesia-EFTA (Iceland, Liechtenstein, and Norway & Swiss Confederation), (3) Indonesia-Iran PTA, (4) Indonesia-Australia CEPA and (5) Indonesia-Chile CEPA.



two countries are also connected through the regional-plus economic agreement frameworks of the ASEAN-Australia-New Zealand FTA (AANZFTA, 2009) and the Regional Comprehensive Economic Partnership (RCEP, negotiations still in progress) which is basically the ASEAN-plus Six (ASEAN + China, Japan, South Korea, India, Australia and New Zealand).

A study by the Institute for Economic and Social Research at the University of Indonesia (LPEM)⁵² in 2014, using a Regulatory Impact Assessment (RIA) method, found that bilateral economic cooperation with Australia will benefit Indonesia particularly if such cooperation can increase and enhance foreign direct investment (FDI) inflows from Australia to Indonesia.

However, Indonesia and Australia must work closely and intensively together to ensure three key issues. First, the bilateral IA-CEPA should build on, and be complementary to, existing regional frameworks where both countries are involved, such as AANZFTA and RCEP. As its name suggests, the IA-CEPA covers more than just liberalisation of trade and the enhanced free flow of goods and services. IA-CEPA also covers the free flow of investment⁵³ and people, and augments the free trade provisions of AANZFTA and RCEP. One example of IA-CEPA building on the provisions of AANZFTA is the stated goal of achieving a 100% elimination of tariffs on Indonesian goods entering the Australian market, and a 93.2% elimination of tariffs on Australian exports to Indonesia, by 2020 (Indonesia-Australia Business Partnership Group, Position Paper, 2012). Second, the bilateral IA-CEPA is a means for ensuring that the 'two-way liberalisation'⁵⁴ of trade and investment results in a 'win-win situation' for both parties. Third, IA-CEPA should take on the role of streamlining regulations in order to further boost the economic liberalisation principles of the regional-plus frameworks of AANZFTA & RCEP. Operating at the bilateral, national level, IA-CEPA must be both broader and provide greater sectoral detail of the issues and areas it covers, which distinguish it from the regional-plus frameworks.

Finally, the IA-CEPA should have mechanisms that actively facilitate trade and investment between the two nations as well as with third nations through collaboration in accessing global value chains.

COMPARATIVE MACROECONOMIC OVERVIEW

➤ ECONOMIC RELATIONSHIPS

Until the mid-1960s, business interests between Australia and Indonesia remained at very low levels (Arndt, 1968). From 1967, with the advent of the Suharto administration, Indonesia recorded, on average, higher annual economic growth than Australia. This improvement in Indonesia's economic growth stimulated economic relations between the two countries. During the 32 years of Suharto rule, there were only two years (1982 and 1985) where Indonesia experienced lower economic growth than Australia. This was a result of falling oil prices and spurred the Indonesian government to initiate a number of economic reforms to boost the production and export of non-oil and gas commodities. In the late 1980s and early 1990s,

⁵² LPEM (*Lembaga Penyelidikan Ekonomi dan Masyarakat*), Faculty of Economics and Business, University of Indonesia.

⁵³ According to the IA-BPG Position Paper of 2012, IA-CEPA must cover six crucial areas beside trade and investment. They are: government procurement, rules of origin, dispute settlement mechanisms, protection of intellectual property rights, competition policy and 'cross-cutting measures to overcome impediments' (IA-BPG, 2012).

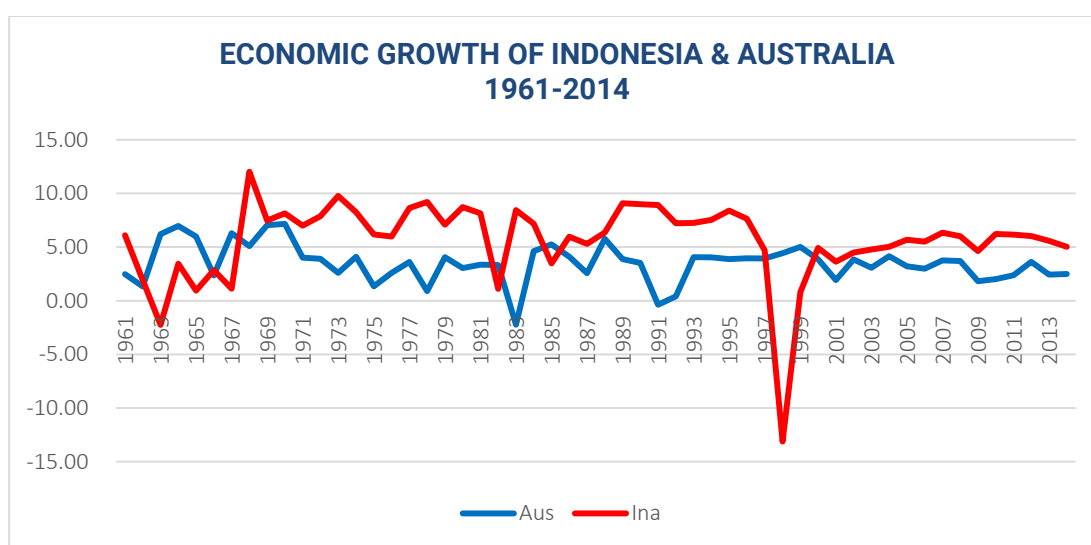
⁵⁴ This condition is also known as "Cournot-Nash Equilibrium".



Indonesia's economy returned to strong growth until it faced the impacts of the Asian Financial Crisis (AFC) in 1997-1998⁵⁵.

The AFC forced Indonesia to enter the so-called 'big-bang period' marked by fundamental government reforms and pressure for decentralisation⁵⁶. During this transitional period, similar to the presidential transition from Soekarno to Suharto in the 1960s, Indonesia encountered negative economic growth. Indonesia's economy has since recovered, and its economic growth to date – from 2000 onwards – has been higher than that of Australia. Indonesia's economic growth has improved significantly since the AFC and this has once again stimulated economic relations between Indonesia and Australia, even more so than during the Suharto's presidency.

Graphic 1. **Economic Growth of Indonesia & Australia (1961-2014)**



Source: World Development Indicators.⁵⁷

⁵⁵ Indonesia adopted at least three economic reforms following the AFC: tight monetary policy, constructive fiscal policy adopting Maastricht Criteria into Indonesia's national law, and recently, structural reforms mostly in supply-side factors. The Indonesian Government under H.E. President Joko Widodo has released a series of economic packages on global economic competition capacity, pro-poor and equality aim (package 1), attractive investment policy (package 2), declining electricity price rate, gasoline, people's access to credit, streamlining government licensing for land and investment (package 3), people-centred development spirit (package 4), tax incentives, asset revaluation and sharia banking empowerment (package 5), peripheral economic empowerment, access to clean water and medical imports easing (package 6), accelerating land certification and labour intensive industry incentives (package 7), one-national map policy, oil refinery development and zero import duties for aircraft imports (package 8), accelerating electricity infrastructure development, stabilisation of meat prices, and enhancing village-city logistics (package 9), protection on Micro and Small Medium Enterprises and limitation on foreign ownership stocks (package 10) and Enhancing national competitiveness capacity at global level (package 11) and easing procedures, time consumption and administrative costs for business purposes in Indonesia. Aside from issuing this series of packages, the next important task is to ensure that they are not conflicting and can be fully implemented in a timely and proper way.

⁵⁶ Indonesia experienced three layers of reform during this period: firstly, the authoritarian military-led political system was replaced by the democratic multi-party system; secondly, the dominant role of the government in the economy moved towards a market-based economic system and globalised open economy, thirdly, adopting a big-bang and wide-ranging decentralisation by giving greater political and budgetary power to local governments. To preserve unity in Indonesia, Aceh and Papua received special autonomy rights in religious affairs, local customs and institutions, education and local development policy (Nasution, 2016).

⁵⁷ <http://data.worldbank.org/products/wdi>.



While Indonesia's economic growth has, on average, been higher than Australia's, per capita Gross National Income (GNI) figures indicate that Australia's economic development is greater than Indonesia. Indonesia, with a per capita GNI of US\$3,630 (2014) is classified as a Lower Middle-Income Country while Australia at US\$64,600 (2014) is a High-Income Country. According to the Solow growth model, countries with high income levels typically record lower economic growth. Data shows that Australia has been a high-income country since the end of the 1980s, while some estimates claim Indonesia could become a high-income country by around 2030. Despite the considerable size of Indonesia's economy, large enough for membership in the G-20 group, it lags well behind Australia in other important economic measures such as per capita GNI. **Table 1** below shows the comparative GNIs in current US\$ of Indonesia and Australia between 1964 and 2014.

Table 1. **GNI per Capita (current US\$) of Indonesia & Australia (1964-2014)**

| YEAR | AUSTRALIA | INDONESIA | ACCELERATION OF GNI PER CAPITA AUSTRALIA | ACCELERATION OF GNI PER CAPITA INDONESIA |
|------|-----------|-----------|--|--|
| 1964 | 2,070 | 60 | None | None |
| 1974 | 5,890 | 170 | 1.85 | 1.83 |
| 1984 | 11,920 | 550 | 1.02 | 2.24 |
| 1994 | 18,750 | 880 | 0.57 | 0.60 |
| 2004 | 25,490 | 1,080 | 0.36 | 0.23 |
| 2014 | 64,600 | 3,630 | 1.53 | 2.36 |

Source: Calculated using the World Development Indicators.

The pattern of economic acceleration between Indonesia and Australia from 1964 to 2014 shows some similarities. It parallels the world price movement for oil and gas, minerals, metals and other primary commodities indicating that both countries have benefited from primary product (agriculture and mining) exports⁵⁸. As shown in **Table 1**, both economies showed peaks in 1970 and the mid-1980s. Economic growth then slowed from the mid-1990s to mid-2000s, later picking up from mid-2000s to recently.

The similarities between Indonesia and Australia are further confirmed by the elasticity measurement for both countries' constant price GDP as described in **Table 2**.

Table 2. **Elasticity of Constant Price GDP between Indonesia and Australia (1967-1998 and 1999-2014)**

| ELASTICITY OF CONSTANT GDP | 1967 – 1998 | | 1999 – 2014 | |
|----------------------------|-------------|-----------|-------------|-----------|
| | INDONESIA | AUSTRALIA | INDONESIA | AUSTRALIA |
| Indonesia | | -0.1 | | 1.64*** |
| Australia | -0.46 | | 0.57*** | |
| <i>R-Squared</i> | 0.05 | 0.05 | 0.94 | 0.94 |

Source: Calculated using the World Development Indicators.

⁵⁸ Both countries experienced negative impacts from the global decline of primary products prices in both agriculture and mining in the late 2000's.



During Suharto's 32-year rule, the Indonesia-Australia economic relationship was more competitive than complementary. Yet statistically, the relationship was insignificant. Even in the final days of Suharto's presidency, the two neighbouring countries, showed greater economic ties with other countries, geographically further away, than with each other (Hill, 2000). The lack of engagement between Indonesia and Australia can be confirmed by empirical evidence such as the numbers of bilateral state visits. During those years, Indonesia's President Suharto made only two official state visits to Australia; in 1972 to Canberra and 1975 to Townsville. During the same period, Australian Prime Ministers made nine official visits to Indonesia.⁵⁹

However, there has been a significant increase in economic relations since the early-2000s following a series of reforms and deregulation in Indonesia. Statistical modelling shows that both countries have had significant and positive economic relations since the start of the 21st Century, and that Indonesia's economy has had a greater impact on Australia's compared with the other way around. This can be seen as an initial sign that Indonesia's economy is becoming more important to Australia and a strong signal to both countries – governments, business leaders and society in general – that now is the time for the two countries to further improve and accelerate the relationship between them.

In fact, both countries have made efforts to build a stronger relationship and address the historical lack of engagement between two of the largest economies in the region. Since 2000, the frequency of official visits has more than doubled with visits by Indonesia's President Abdurrahman Wahid in 2001, President Susilo Bambang Yudhoyono in 2010 and 2012, and President Joko Widodo in 2014. In the same period, sitting Australian Prime Ministers have visited Indonesia on fourteen occasions.⁶⁰

➤ **DIFFERENT PRODUCTIVITY LEVELS**

Australia's productivity factors are greater than Indonesia's as shown in **Table 3**. In terms of economic size (GDP), with a lower population than Indonesia (23 million compared to 254 million in 2014), Australia generates a GDP of US\$1.45 billion (2014), which is much higher than Indonesia's at US\$0.89 billion (2014). This confirms that Australia, with an annual GNI per capita of US\$64,600 (2014), is more productive than Indonesia with US\$3,630. Furthermore, in terms of exchange rates (ER), Indonesia's real GNI per capita (in PPP) is higher than Indonesia's nominal GNI per capita (in nominal ER) while Australia is the opposite. This indicates that the Rupiah is undervalued towards the US dollar while the Australian dollar is overvalued and again confirms that Australia's economy, in the context of global competitiveness, is stronger than Indonesia's. Two other important indicators also further confirm Australia's strong institutional frameworks and productivity, that is, the Credit Rating and Human Development Index respectively. Australia holds high indexes in terms of economic institutions with a credit rating of AAA and productivity indicator of 0.935 of HDI (ranked second in the world).

⁵⁹ PM. Gorton (1968), PM. MacMahon (1972), PM. Whitlam (1973, 1974), PM. Fraser (1976), PM. Hawke (1983), PM. Keating (1992, 1994) and PM. Howard (1996).

⁶⁰ PM. Howard in 2002, 2003, 2004, 2005, 2006; PM. Rudd in 2007, 2008, 2013; PM. Gillard in 2010, 2012; PM. Abbott in 2013 and twice in 2014 and PM. Turnbull in 2015.



Table 3. **Comparative Macroeconomic Indicator between Indonesia & Australia**

| INDICATOR 2014 | INDONESIA | AUSTRALIA |
|--|---------------|-------------|
| Human Development Index (HDI) Rank | 110 (0.68) | 2 (0.935) |
| Credit Rating (S&P;M;F) | BB+;Baa3:BBB- | AAA;Aaa;AAA |
| Population (million) | 254 | 23 |
| Population Density (sqm) | 140 | 3 |
| GDP at market prices (mn current US\$) | 888,538 | 1,454,675 |
| GNI per Capita (current US\$) | 3,630 | 64,600 |
| GNI per Capita (PPP US\$) | 10,190 | 44,700 |
| GDP Growth (annual %) | 5.02 | 0.96 |
| Inflation, consumer prices (annual %) | 6 | 2.5 |
| Real interest rate (%) | 7 | 4.5 |
| Trade to GDP (%) | 48 | 42 |
| Tariff rate, most favoured nation, simple mean, manufactured products (%) 2013 | 7.2 | 3.3 |
| Tariff rate, most favoured nation, simple mean, all products (%) 2013 | 6.7 | 2.7 |

| | |
|--|--|
| | Data of Indonesia is higher than Australia |
| | Data of Australia is higher than Indonesia |

Source: the World Development Indicators and various sources.

From an institutional perspective, Australia has adopted advanced British institutional frameworks since the beginning. This enhances Australia's economic level through its endogenous growth factor (McLean, 2004). Meanwhile, Indonesia has adopted an extractive institutional framework (Acemoglu, Johnson & Robinson, 2001) that requires long-term reforms over time (Resosudarmo, Verico & Pasaribu, 2015). This institutional factor increases the level of human quality and productivity for Australia which increases Australia's wealth in terms of saving rates, capital levels and GNI per capita. Given the significant on-going progress in the economic relationship between the two countries, the data indicates that this is the right time for Indonesia to learn how to increase its productivity from Australia; including transfer of knowledge, know-how and institutional development.

➤ **POTENTIAL FOR MUTUALLY BENEFICIAL ECONOMIC RELATIONS**

Indonesia's strong economic growth and Australia's level of economic development indicate that there is great potential for mutually beneficial economic relations. But with regard to the bilateral economic negotiation process, Indonesia needs to work harder than Australia. One of the biggest challenges for Indonesia is on quota protection since quotas are more harmful than tariffs⁶¹. Other protections such as tariffs, trade regulations and procedures, technical barriers to trade, barriers on natural persons, FDI restrictions and communication and exchange information also need to be discussed. During the 1970s, both Indonesia and Australia were protective countries (Anderson &

⁶¹ Indonesia Trade Law no 7/2014 Article 69 (2).



Garnaut, 1987; Basri & Hill, 2004). However, Australia's tariff protection has decreased faster than Indonesia's. Australia started to become more open and less protective, including protections against Indonesian products, since the 1980s (Anderson & Garnaut, 1987). It must be noted, that although Indonesia is more protective in terms of tariff rates than Australia, in terms of economic openness (trade to GDP ratio) Indonesia is higher than Australia. This shows that even though Indonesia's tariff rate is higher than Australia's, Indonesia's trade openness indicator remains higher than Australia. This indicates that, compared to Australia, Indonesia's economy depends more on external economies.

In the agricultural sector, Australia is more advanced in terms of methods, systems and capital. Yet, Indonesia has higher agricultural exports as a proportion of merchandise exports. This shows that Indonesia's manufacturing export performance is still weak due to low export competitiveness. The latter needs improvements in investment climate, cost of doing business, human capital development (skilled labour in particular) as well as outward looking requirements with the long term vision of enhancing exports and investment. This is a great opportunity for Indonesia to increase food and beverage exports given IMF's estimation of a higher food and beverage index compared to that in minerals and mining.⁶² Yet, despite the fact that Indonesia has a higher share of value-added to GDP and employment absorption in the agricultural sector, Australia has a much better productivity with an agriculture value-added per worker as high as US\$50,498 per year compared to Indonesia's US\$1,079 per year. Furthermore, manufacturing and industrial sector indicators show that Australia can attain a high-income-country level without being an industrial economy. This means that, aside from learning how to increase productivity, Australia's experience can provide a valuable model for Indonesia on how to develop its economy and become a high-income country through a non-industrial sector development approach. This is one of the key factors in IA-CEPA's so-called 'capacity building' such as engagement in knowledge and know-how sharing between Australia and Indonesia.⁶³

Indonesia's manufacturing and industrial sector performs better than Australia's, but in terms of its value-added level, Australia's manufacturing and industrial sector is better than Indonesia's including both agroindustry and pharmaceutical products. This is shown by the fact that in terms of value-added and global competitiveness for exports, Indonesia shows a better performance than that of Australia but in terms of high-technology exports share to GDP, Australia is better than Indonesia.

Australia's higher levels of human resource quality (HDI), productivity (value-added per capita) and economic institution performance (i.e. credit rating) are also reflected in comparative service sector performance. The possibility of becoming a high-income-country without necessarily being an industrial country, will provide opportunities for Indonesia to learn how to enhance the role of its services sector in the economy, including its export capacity.

Indonesia has the potential for greater ICT goods exports to Australia, as Indonesia records higher percentages of total goods exports compared to Australia (see **Table 4**). Yet Indonesia needs to learn from Australia to develop its financial markets including the insurance services sector. Meanwhile, in derivative markets, as can be seen in its financial services sector competitiveness, Indonesia is quite far behind Australia. This indicates that Indonesia needs to improve its real

⁶² The IMF, *World Economic Outlook: Too Slow for Too Long*, April 2016.

⁶³ For instance the IA-CEPA Skilled Workforce Pilot recommended by the IA-BPG (Australia-Indonesia Centre, *Succeeding Together*, 2015, November).



sector competitiveness as a necessary condition before achieving a strong financial sector and high investment inflows in the long-run.

Table 4. **Comparative Macroeconomic Indicators between Indonesia and Australia in Services Sector (2014)**

| INDICATOR 2014 | INDONESIA | AUSTRALIA |
|--|-----------|-----------|
| Services, etc., value added (% of GDP) | 42 | 71 |
| Trade in services (% of GDP) | 6 | 8 |
| ICT goods exports (% of total goods exports) | 3 | 1 |
| Insurance and financial services (% of commercial service exports) | 1 | 6 |
| Services exports (BoP, billion current US\$) | 24 | 54 |
| Goods exports (BoP, billion current US\$) | 175 | 241 |
| Net trade in goods and services (BoP, billion current US\$) | -3.03 | -9.10 |

| | |
|--|--|
| | Data of Indonesia is higher than Australia |
| | Data of Australia is higher than Indonesia |

Source: World Development Indicators.

In terms of all capital market forms, stocks, FDI and bilateral aid flows, Australia is much more advanced than Indonesia. As for the latter, Indonesia receives significant foreign aid from Australia, which was the largest of Indonesia's foreign donors in 2014, whereas Australia does not receive foreign donor funds from Indonesia.

Table 5. **Comparative Macroeconomic Indicators between Indonesia and Australia in Financial Market (2014)**

| INDICATOR 2014 | INDONESIA | AUSTRALIA |
|--|-----------|-----------|
| Listed domestic companies, total | 506 | 1,967 |
| Stocks traded, total value (billion current US\$) | 91 | 703 |
| Stocks traded, total value (% of GDP) | 10 | 48 |
| Foreign direct investment, net inflows (BoP, billion current US\$) | 26 | 46 |
| Net bilateral aid flows from DAC donors, Australia (billion current US\$) Rank 1 in 2014 | 0.45 | Donor |

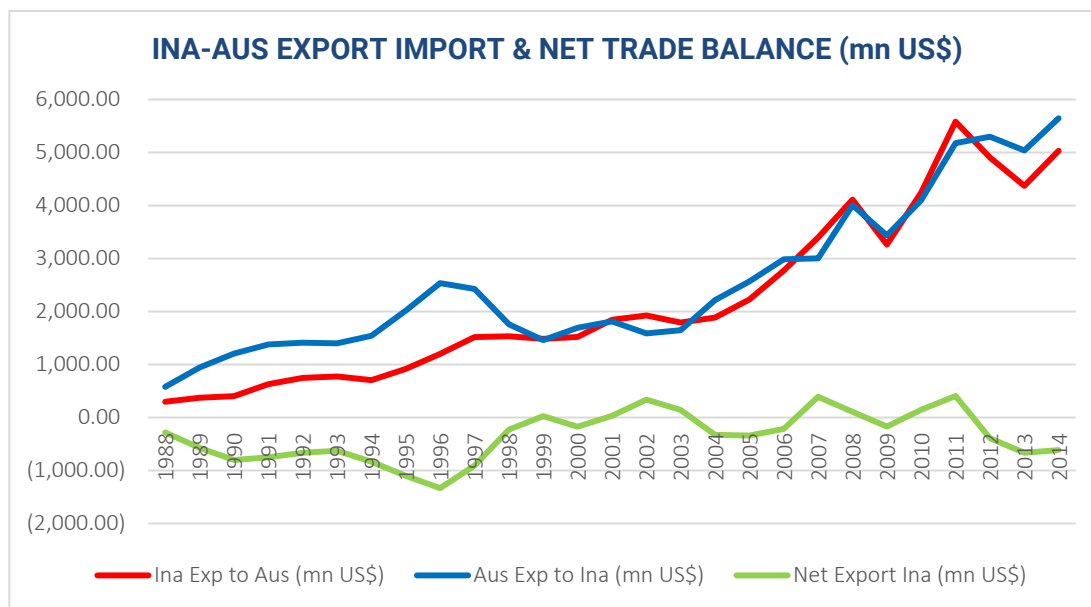
Source: World Development Indicators.

BUSINESS TO BUSINESS RELATIONSHIP: OVERVIEW ON TRADE RELATIONS

There are two major indicators which represent 'business to business' relations among countries, including bilateral relations. One is the flow of goods or trade, and two is the flow of services and investment. Further, there is a third indicator, the flow of people or presence of natural persons such as tourists from Australia in Indonesia and students from Indonesia in Australia. As for trade patterns, prior to 2000, the net trade balance between Indonesia and Australia was always negative which means Indonesia's imports from Australia were higher than exports to Australia. Since 2000, Indonesia has occasionally recorded positive net trade balances with Australia. This confirms the previous finding

that the elasticity of GDP between Indonesia and Australia indicates that Indonesia is becoming more important to Australia. The pattern can be seen below:

Graphic 2. **Net Trade Balance between Indonesia & Australia (1988-2014)**



Source: World Development Indicators.

➤ **TRADE RELATIONS**

Data on trade surpluses between the two countries show that Australia records trade surpluses mostly in food-related products such as cereals, sugar, live animals, meat and dairy products, while Indonesia records trade surpluses mostly in non-trade related products such as minerals, iron and steel articles, metals, wood, paper, rubber, clothing and furniture (Resosudarmo, Verico & Pasaribu, 2015). These findings show that the potential for Indonesia and Australia to build a strong complementary trade relationship is growing. This will require a more detailed analysis using indexes in order to have a clearer figure once a net trade balance is observed.

The indexes used are the Revealed Comparative Advantage (RCA) and Constant Market Share Analysis (CMSA). Complete results of the calculation can be seen in **Appendix 1**.⁶⁴

The analysis found that Australia has greater performance at the global level for live animals, vegetables and inorganic chemical products while Indonesia's competitive products are more varied besides those similar to Australia (i.e. animals such as fish, vegetables and prepared food and beverage products) such as wood products, pulp and paper, clothing and textiles, footwear, nickel, tin and musical instruments. Both countries are strong in mineral products and other edible preparation products. Similar to the previous findings by Resosudarmo, Verico and Pasaribu (2015), static and dynamic comparative advantage calculation using 2015 data confirms that

⁶⁴ The product is classified as 'Great' if it has RCA of more than 1 (one) and Sector Comparative Factor of more than 0 (zero), 'Challenging' if it has RCA of more than 1 (one) and Sector Comparative Factor of less than 0 (zero), 'Potential' if it has RCA of less than 1 (one) and Sector Comparative Factor of more than 0 (zero) and 'None' if it has RCA of less than 1 (one) and Sector Comparative Factor of less than 0 (zero).



Indonesia has more variation in its competitive products than Australia and both are complementary to each other.

Indonesia has an important role in the economic cooperation and networks of the Association of Southeast Asian Nations (ASEAN) and with the countries of East Asia. ASEAN has implemented Free Trade Agreements with each of Japan, Korea and China, and Indonesia therefore gains an important advantage from taking part in the production networks of Southeast Asia to fulfil imports demanded by Australia (Hill, 1990). This trade relationship has the potential to be developed to the next level by facilitating Australian investment in Indonesia to produce products demanded by Australian consumers, which could be more efficiently produced in Indonesia. Under the IA-CEPA, this production network not only serves to fulfil both countries' local market demand but also the world's market demand, known as the global value chain.⁶⁵ Stronger economic cooperation with Indonesia will provide benefits to Australia given the fact that: Indonesia is the largest economy both in terms of size of GDP (39%) and population (42%) in Southeast Asia and, ASEAN economic cooperation has moved from trade to the free flows of service, investment and persons in the ASEAN Economic Community since early 2016. Both the IA-CEPA and AANZFTA, assist both countries in developing bilateral links with each other, and with the global supply chain.

➤ PRODUCTION NETWORKS

From an Indonesian perspective, regional-plus networks provide more economic benefits, particularly inflows of foreign investment, than bilateral, sub-regional ones such as IMT-GT⁶⁶, BIMP⁶⁷, ITRO⁶⁸ and regional ASEAN (Verico, K., 2013)⁶⁹. As for the latter, economic integration has transformed from focusing on trade integration of the ASEAN Free Trade Area (AFTA) to investment and services integrations of the ASEAN Economic Community (AEC) since early 2016.

As the previous empirical findings show, Indonesia receives many economic benefits from the regional-plus networks, and ASEAN members are expected to earn more benefits from the AEC in the coming years. Therefore, it is necessary to observe the likelihood of impacts from a 'collision' between AEC and the TPP (Trans-Pacific Partnership), because, first, both Indonesia and Australia are member states of the ASEAN-plus frameworks such as AANZFTA and RCEP. Second, because Australia is a founding member of TPP, while Indonesia remains outside of it, despite a recent aspiration to join TPP. Third, the cohesion of ASEAN in the face of challenges presented by the

⁶⁵ For instance, economic networks between Indonesia and Australia in producing red meat and cattle products (Australia-Indonesia Centre, *Succeeding Together*, 2015, November).

⁶⁶ IMT GT consists of 14 Provinces of Southern Thailand (Krabi, Nakhon Si Thammarat, Narathiwat, Pattani, Phattalung, Satun, Songkhla, Trang, Yala, Chumphon, Ranong, Surat Thani, Phang Nga, Phuket); 8 states of Peninsular Malaysia (Kedah, Kelantan, Melaka, Negeri Sembilan, Penang, Perak, Perlis and Selangor); 10 provinces in the island of Sumatra in Indonesia (Aceh, Bangka-Belitung, Bengkulu, Jambi, Lampung, North Sumatra, Riau, Riau Islands, South Sumatra, and West Sumatra). Details in <http://www.imtgt.org/>.

⁶⁷ The agreement covered Brunei is full coverage; and originally the provinces of East and West Kalimantan and North Sulawesi. It was later expanded to include all provinces in Central and South Kalimantan; Central, South and Southeast Sulawesi; Irian Jaya; and Maluku), Malaysia (Federal Territory of Labuan and the Federal States of Sabah and Sarawak) and the Philippines (The entire island of Mindanao and the province of Palawan). Details at <http://www.bimp-eaga.org/>.

⁶⁸ See Verico, K. (2013). Economic Cooperation in Natural Rubber: Impacts on Natural Rubber's World Supply and Indonesia's Economy. *Asian Journal of Agriculture and Development*, 10(2), 75-93.

⁶⁹ See Verico, K. (2013). The Impacts of Discriminative Trade Arrangements on Foreign Direct Investment and Foreign Trade in Southeast Asia during the 1988–2008 Period (PhD abstract). *Bulletin of Indonesian Economic Studies*, 49(2), 238-239.



TPP, where some ASEAN countries are members and others are not, is of crucial importance to ASEAN economic integration. This is expected to broaden economic divergences between ASEAN members like Indonesia which remain outside of TPP, and those which have joined such as Malaysia, Singapore, Brunei Darussalam and Vietnam.

One of the denoted indicators of how Indonesia and Australia are positioned in the TPP network is the Global Value Chain (GVC) as it represents networks which can cover Indonesia and Australia (see **Appendix 2**). It shows that under the TPP GVC classifications, Indonesia and Australia have similar patterns in all major indicators: Distance to Final Demand, Number of Production Stages in Domestic & International Market and Participation Index on Forward & Backward as Medium, Medium & Low and High & Low respectively. Further, in the Participation Index, Indonesia and Australia hold complementary connections.

These GVC indicators show that Indonesia is an important supplier for Australia's production process as Indonesia is in the top three countries in the backward index of Australia⁷⁰ (see **Table 6** below). The CEIC dataset shows that Indonesia recorded a trade balance surplus with Australia in Articles of Iron and Steel (raw materials) while Australia recorded a trade surplus toward Indonesia in Iron and Steel (final products). This confirms a stronger tie between the two countries as trading partners, even though Indonesia is not a major trading partner for Australia and vice-versa. The two countries have complementary economic networks and, at the start of 21st Century, the magnitude of these networks increased even further.

Table 6. **Backward Participation Index of Australia in GVC**

| COUNTRY | BACKWARD GVC PARTICIPATION | |
|-----------|----------------------------|-----------------------|
| | COUNTRY | TOP FOREIGN PROVIDERS |
| Australia | United States | 10.4 |
| | China | 7.9 |
| | Indonesia | 5.7 |
| Indonesia | Saudi Arabia, Kingdom of | 11.7 |
| | China | 10.4 |
| | Japan | 8.3 |

Source: Compiled using OECD Statistical Data.

➤ **LONG-TERM INVESTMENT (FDI INFLOWS)**

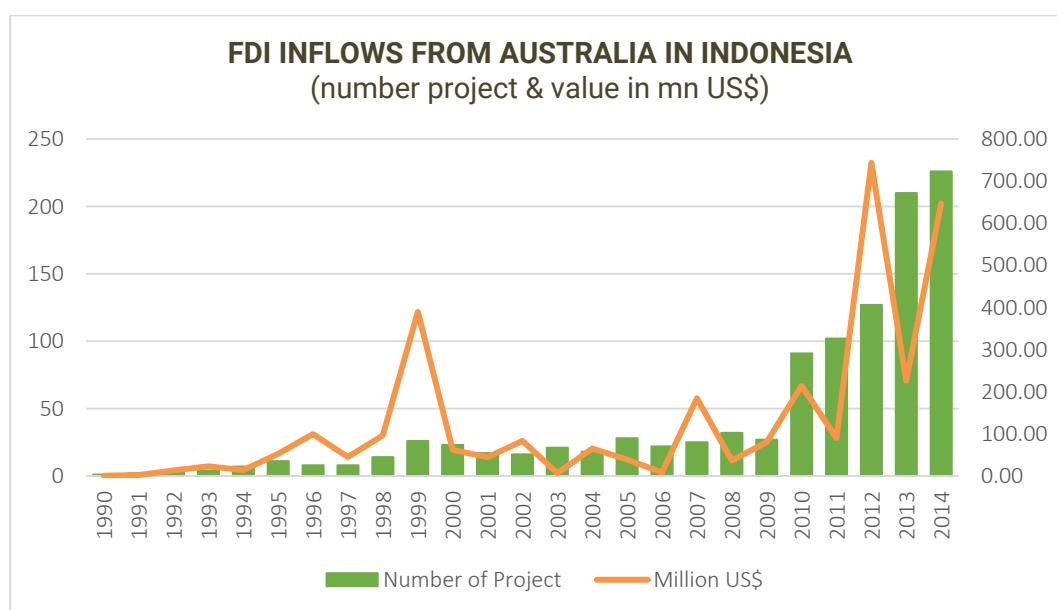
A 2015 study by the Institute for Economic and Social Research found that, if Indonesia forms bilateral economic agreements with high income countries like Australia, it is expected to gain benefits if the bilateral agreement can increase inflows of FDI. In terms of FDI inflows, major investors in Indonesia are ASEAN members (Fukuoka & Verico, 2015). However, Australia has the potential to become a major investor in Indonesia because of the existence of the AANZFTA. These two economic frameworks (bilateral and ASEAN-plus) together with the RCEP (Regional

⁷⁰ It may be feasible for Indonesia and Australia to achieve sustainable production networks in both agriculture and mining using the abundance of energy support which exists in Indonesia such as via the utilisation of hydropower from Eastern Indonesia. Geographically, Indonesia is very strategic for Australia's shipping activities from Australia to East Asia and back via the Arafura Sea.

Comprehensive Economic Partnership) and the TPP (if Indonesia becomes a member) will increase investment relations between Australia and Indonesia.

Australia's FDI inflows to Indonesia remain below Indonesia's other major investors such as ASEAN, EU, Japan, USA and South Korea, but progress has been significant, especially since 2000. There is increasing confidence on the part of Australian investors in Indonesia's economy and this is good for Indonesia's economic future, since the FDI inflow has positive impacts on both productivity and value-adding. The number of projects has increased significantly and the value of FDI investments has also risen greatly from an average of less than USD100 million per year before 2010 to more than USD400 million per year since 2010.

Graphic 3. **FDI Inflows from Australia in Indonesia (1990-2014)**



Source: Compiled using BKPM Indonesia Data.

Currently, the top five sectors for Australian FDI investors in Indonesia are chemicals and pharmaceuticals, mining, metals, hotel and restaurant, and trade services, as shown in the Table 7.

Table 7. **Top Ten Sources of FDI Inflows from Australia to Indonesia by Sector in 2009-2013**
(million US\$)

| SECTOR | FDI STOCK FROM 2009-2013 | RANK |
|--|--------------------------|------|
| Chemical and Pharmaceutical Industry | 834.12 | 1 |
| Mining | 204.10 | 2 |
| Metal, Machinery & Electronic Industry | 77.85 | 3 |
| Hotel & Restaurant | 21.28 | 4 |
| Trade & Repair | 21.15 | 5 |
| Construction | 10.25 | 6 |
| Non Metallic Mineral Industry | 9.69 | 7 |



| SECTOR | FDI STOCK FROM 2009-2013 | RANK |
|--|--------------------------|------|
| Transport, Storage & Communication | 6.53 | 8 |
| Food Industry | 5.18 | 9 |
| Real Estate, Ind. Estate & Business Activities | 4.42 | 10 |

Source: Classified using the BKPM Indonesia Data.

➤ **AUSTRALIAN CONTRIBUTION IN INDONESIAN FINANCIAL SERVICES MARKET**

In terms of Indonesia's financial services sector, at least two of Australia's largest banks have established operations in Indonesia; ANZ and Commonwealth banks, both of which have Indonesian subsidiaries – a third, National Australia Bank, has opened a representative office in Indonesia. According to 2014 data, in terms of assets, PT Bank ANZ Indonesia owns around 0.7% of total bank assets in Indonesia, while PT Bank Commonwealth Indonesia owns around 0.4%.⁷¹ In insurance services, there are currently two Australian insurance companies operating in Indonesia, Commonwealth Life, 80% owned by the Commonwealth Bank of Australia, and PT Parolamas Asuransi, 80% owned by the Insurance Australia Group. Data from 2014 shows the former had total assets of around IDR 6.9 trillion or around 0.9% of Indonesia's total insurance assets and the latter holds IDR 271 billion or around 0.03% of Indonesia's total insurance assets.⁷²

PEOPLE TO PEOPLE LINKAGES

From business to business relations, bilateral economic relations between Indonesia and Australia can be seen from movement of natural persons known as People to People Linkages.⁷³ This paper discusses two indicators: flows of students and flows of tourists between the two countries. As for the latter, time series data shows that the number of Australian tourists to Indonesia has significantly increased over the last 10 years.

➤ **INDONESIAN STUDENTS IN AUSTRALIA AND AUSTRALIAN STUDENTS IN INDONESIA**

The number of Indonesian students in Australia as of December 2014 was around 17,925 of which 55% studied in New South Wales. Indonesian students are ranked ninth among foreign students in Australia. Despite its proximity to Australia, Indonesia still ranks below Vietnam, Thailand and even Nepal which are all geographically farther away than Indonesia and demographically less populous than Indonesia (see **Appendix 3**).

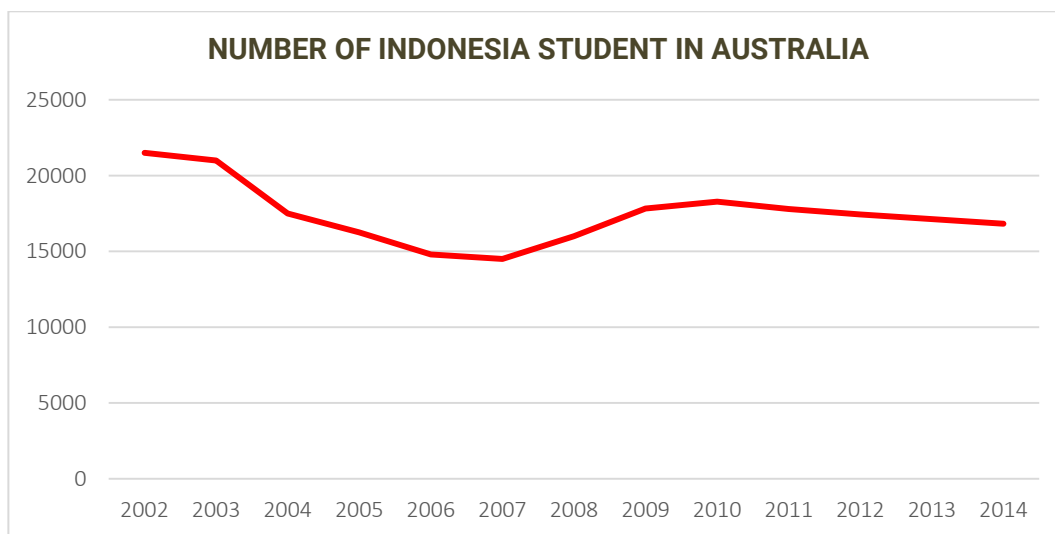
Over a four-year period (2011-2014) the number of Indonesian students in Australia was stable at around 17,000. Yet this number is lower than the peak of around twenty-thousand Indonesian students in early 2002. The lowest level of less than fifteen thousand students occurred in 2006 and 2007 (see **Graphic 4**). This explains why other countries recorded increasing numbers of Indonesian students, probably due to the higher number of education programs and value of scholarships offered by other destination countries.

⁷¹ Source: Indonesian Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) and firms' financial statements.

⁷² Source: Indonesian Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) and firms' financial statements.

⁷³ See Missbach, A., and Purdey, J (eds.). *Linking People: Connections and Encounters between Australians and Indonesians*, (pp.49-71), Melbourne: Australia

Graphic 4. **Indonesian Students in Australia (2002-2014)**



Source: Illustrated based on https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2014.aspx#Pivot_Table.

In 2014, of the 17,925 Indonesian students, 47% were enrolled in Higher Education (HE) and 38% were enrolled in Vocational Education & Training (VET). Most Indonesian students decided to go to Australia to study management, social sciences and service sector skills such as restaurant and hotel services rather than to study manufacturing or engineering related skills (see **Appendix 4 and 5**). This strengthens the initial hypothesis that the economic orientation between the two countries is mostly based on service sector relations.

On the other hand, the number of Australian students in Indonesia was relatively small with around 442 students (2012). Data from the Australian Department of Education and Training on the New Colombo Plan of 2012⁷⁴ showed, in terms of study destination country, Indonesia was ranked 15th and by percentage, 1.9% of Australian students chose to study in Indonesia. This figure showed a decrease compared to the 2011 figure of 2.2%.

➤ **AUSTRALIAN TOURISTS AND WORKERS IN INDONESIA AND INDONESIAN TOURISTS IN AUSTRALIA**

It is appropriate to observe the flow of people from Australia to Indonesia in the context of tourism statistics as, first, most Australians visiting Indonesia do so for tourism, and second, the tourism arrivals data can be used as a proxy indicator of business to business relations. This analysis uses data which compares both Australian arrivals compared with arrivals from other countries, and the time period spent in Indonesia by Australian tourists.

Indonesian tourism statistics by nationality show that in 2014, apart from ASEAN countries which do not require a visa for entry, Australian tourists accounted for the largest number of foreign visitors, above China, Japan and South Korea. The period of time spent in Indonesia by Australians has more than doubled in the period from 1999 to 2014. This clearly shows that Indonesia has

⁷⁴ <https://internationaleducation.gov.au/research/Research-Snapshots/Documents/StudentMobility%202011-12.pdf>.



become an increasingly attractive tourism destination for Australians, and that the trajectory of relations between the two countries, since 2000, has been predominantly positive.

Table 8. **Number of Tourist Arrivals in Indonesia by Nationality and Acceleration Rate (1999-2014)**

| NATIONALITY | 2014 | 1999-2014 |
|----------------|-----------|-----------|
| ASEAN | 3,635,609 | 2.0 |
| Japan | 505,175 | 0.8 |
| Korea Republic | 352,004 | 1.5 |
| China | 1,052,705 | 58.9 |
| France | 208,537 | 2.4 |
| Germany | 184,463 | 1.0 |
| Netherlands | 168,494 | 1.8 |
| United Kingdom | 244,594 | 1.6 |
| USA | 246,397 | 1.5 |
| Australia | 1,145,576 | 2.2 |

Source: Compiled using CEIC data.

Data collected since the early 2000s show that the overwhelming majority of Australians visited Indonesia for holidays (91% in 2014, see **Table 9** below). Comparing those statistics to the acceleration rate of official mission visits (6.09 from 1999 to 2014), confirms that since the Suharto years⁷⁵, Indonesia has increased formal G2G relations with Australia. The overall increase of visits by Australians indicates the converging interests of people from both countries. Visits for educational purposes are also accelerating at a rate of 1.87 which represents the increasing numbers of Australian students who wish to study in Indonesia. This rate is even greater than that of business related visits at 1.45.

Table 9. **Australian Arrivals in Indonesia by Purpose of Visit (1999-2014)**

| PURPOSE OF VISIT | 1999 | 2014 | % OF TOTAL 2014 | ACCELERATION RATE |
|------------------|----------------|------------------|-----------------|-------------------|
| Business | 59,035 | 85,483 | 8% | 1.45 |
| Official Mission | 338 | 2,058 | 0.2% | 6.09 |
| Convention | 2,255 | 5,347 | 0.5% | 2.37 |
| Holiday | 460,369 | 965,750 | 91% | 2.10 |
| Education | 1,233 | 2,310 | 0.2% | 1.87 |
| TOTAL | 523,230 | 1,060,948 | | |

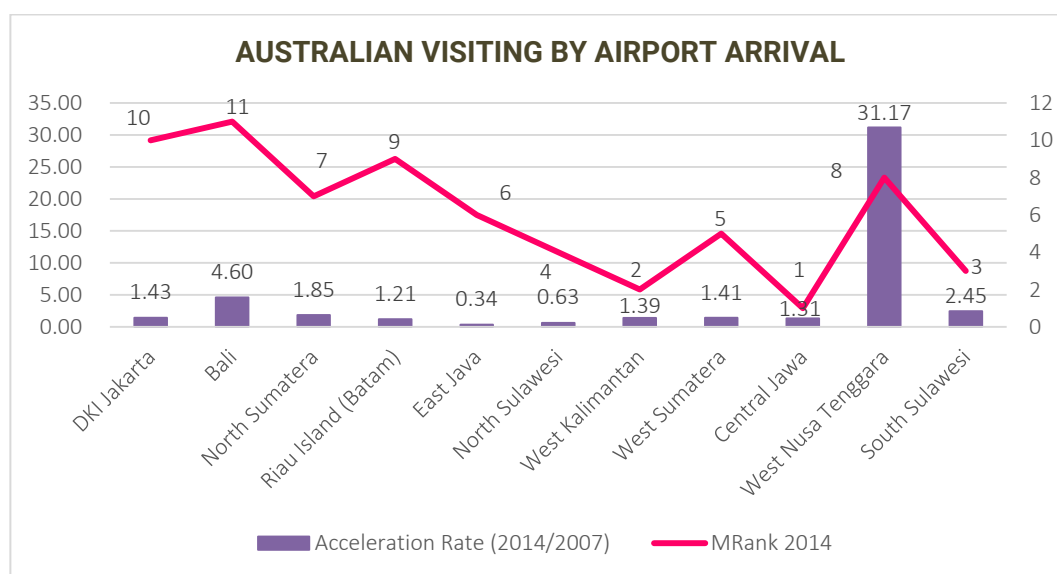
Source: Calculated based on CEIC data.

⁷⁵ During the Suharto era, Australia was a member of IGGI and CGI and was recently actively involved as a major provider for Indonesia's capacity building for both institutions and people such as poverty alleviation and scholarship programs.

Both countries need to boost their business relations as the acceleration rate of business visits is the lowest by comparison to visits for other purposes. Given the large number of tourist visits from Australia to Indonesia and the aim to boost business relations between the two countries, significant opportunities may exist for Australian investment in Indonesia's tourism sector and tourism related businesses such as restaurants, bars, homestays, recreation parks, handicraft shops and so on; not only in Bali but in many of Indonesia's other tourism destinations as well.

Generally, Australians who enter Indonesia via Jakarta do so for business and Australians who enter via Bali do so for recreation. Data shows that almost 90% of Australians entered Indonesia via Bali, followed by those entering via Jakarta's Soekarno-Hatta airport at around 7.4%. Similar percentages appear when categorised by purpose of visit: 91% for holiday and 8% for business. It is also interesting to note the distribution of Australians entering Indonesian airports by both level and growth. In terms of rank, Bali is number one, but in terms of growth, West Nusa Tenggara as an entry point for Australian visitors, has increased 31-fold from 2007 to 2014 (see **Graphic 5** below).

Graphic 5. **Australian Tourist Visits by Airport of Arrival, 2014 (MRank) & 2007-2014 (AR)**



Note: MRank is a modified rank where the higher rank the higher the number. Formula is 12 minus rank. If the rank is 1 then MRank is 11 (remains the highest).

Source: Compiled using CEIC data.

In terms of tourism revenue sources for Indonesia, Australian tourists have been the largest source of tourism income for the last five years with more than US\$1 billion per year since 2009 and almost US\$2 billion in 2014. This income value is higher than that of tourists from Singapore, Malaysia, China and Japan.

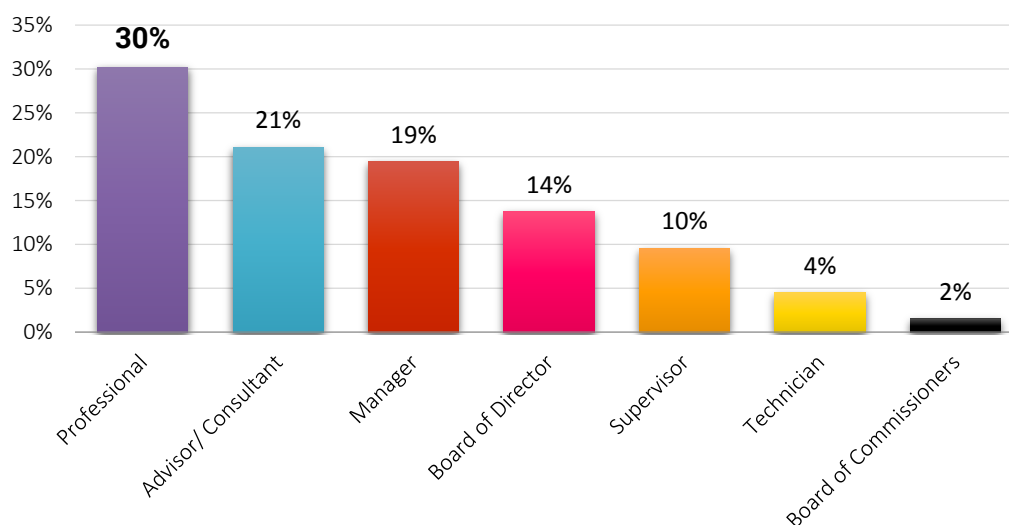
Graphic 6. **Indonesia's Tourism Income per Year (million US\$), 2001-2014**



Source: Own illustration based on CEIC data.

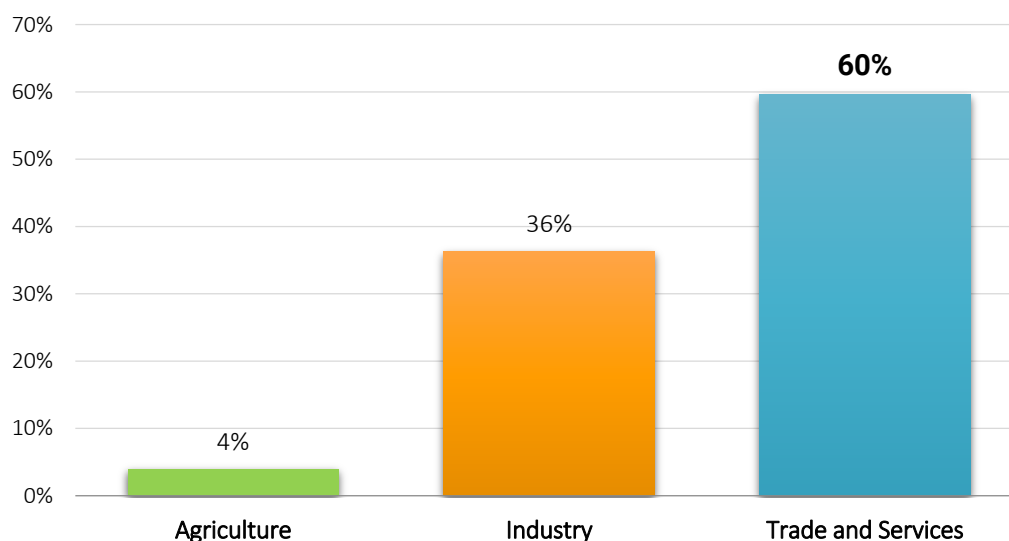
As for Australian workers in Indonesia, data from the Directorate of Training Development and Placement of the Indonesian Ministry of Manpower and Transmigration shows that, as of August 2014, Australian workers accounted for 2,503 individuals, or only 3.25% of the total number of foreign workers in Indonesia. Further, most foreign workers are categorised as 'professionals' (30%), 'advisors or consultants' (21%), or 'managers' (19%). By sector, 60% of foreign workers are employed in the trade and services sectors (see **Graphic 7 and 8** below).

Graphic 7. **Total Foreign Workers in Indonesia by Position (August 2014)**



Source: Compiled using Indonesian Ministry of Manpower and Transmigration data.

Graphic 8. **Total Foreign Workers in Indonesia by Sector (August 2014)**



Source: Compiled using Indonesian Ministry of Manpower and Transmigration data.

Based on 2014 data, Indonesian tourist arrivals in Australia are around 150,000 per year, and account for 2.18% of total foreign visitors to Australia – placing Indonesia among the top twelve source countries for foreign visitors. By purpose of visit, most Indonesians visit Australia for holidays (45%), followed by visiting friends or relatives (28%), business (9%), education (6%), employment (4%) and convention or conference (3%).⁷⁶

INDONESIA-AUSTRALIA ECONOMIC PROJECTION

Enhancing relations between the neighbouring economies of Indonesia and Australia will generate significant benefits for both countries. **Table 2** above shows that economic relations between Indonesia and Australia have improved since the Asian financial crisis and Indonesia's subsequent post-Suharto era of *reformasi*. Improving economic conditions can be observed in the positive and significant economic growth elasticity of Australia to Indonesia, and vice versa, recorded at 0.57 and 1.64 respectively. This indicates that Indonesia's economic growth will generate more impact than Australia's.

If both countries are able to maintain or increase their economic ties this impact could be even higher. This will, however, require serious, intense and comprehensive economic cooperation including through bilateral economic channels. This analysis recommends enhancing various channels of government to government, business to business and people to people relations. All of these channels will positively affect economic ties between Indonesia and Australia.

In its economic outlook, this section applies two assumptions. First, gradual global economic recovery, and second, that the most representative variables for this outlook are macroeconomic variables. Those variables include economic growth and the economic level of GNI per capita. The former shows economic performance, while the latter confirms overall economic achievement of the country.

⁷⁶ Source: Australian Bureau of Statistics and author's calculations.

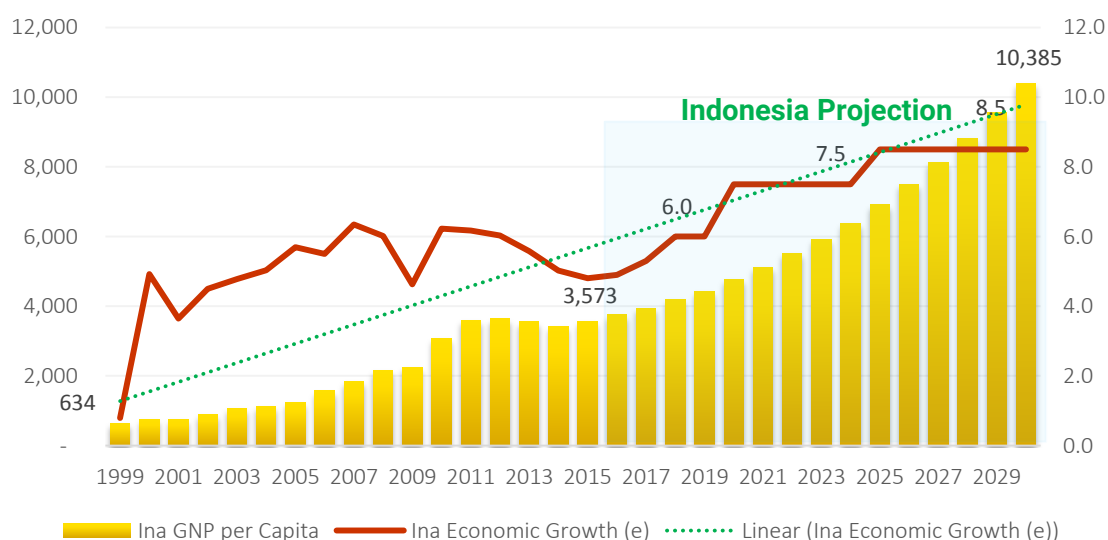


Secondary indicators are sectoral economic growth, inflation rates, trade (exports and imports) and investment (FDI Inflows).

This section focuses on the future impact of a bilateral economic agreement on economic performance but also considers other important factors such as domestic economic conditions. The projections provided here are based on economic forecasts made by the IMF⁷⁷ and a long-term forecast of the Indonesian economy taken from the Indonesia Vision 2030 report.⁷⁸ This analysis uses Indonesia as a benchmark, and adjusts Indonesia's indicators to estimate effects on Australia's economy, given the economic growth elasticity figures in **Table 2**. It therefore assumes that it is feasible for Australia to maintain its economic growth in relation to Indonesia's higher economic acceleration.

This chapter uses time-series data from 1999-2015 and predicts the data from 2016 to 2030. It found that comparing both periods, the long-term average economic growth of Indonesia will increase from 5% (1999-2014) to 7.4% (2016-2030) while Australia's economic growth will increase from 3.1% (1999-2014) to 3.6% (2016-2030). This will increase the economic level of GNI per capita of both countries. Indonesia is estimated to have GNI per capita around US\$10,385 in 2030 from US\$3,573 in 2015 while Australia is estimated to attain GNI per capita of around US\$118,648 from US\$60,070 in 2015. These numbers show that Indonesia's per capita income will triple over the next 15 years, while Australia's will almost double. This makes sense since Indonesia's economic level is still below its natural capacity, while Australia, which is classified as a High Income Country, has already reached its natural capacity. The enhancement of bilateral economic relations between Indonesia and Australia is the essential factor that makes these projections attainable. Complete data on the economic forecasts for Indonesia and Australia, both economic growth and GNI per capita, can be seen in **Graphics 9 and 10** below.

Graphic 9. **Indonesia's Economic Growth (%) and GNI per Capita (current US\$) 1999-2030**



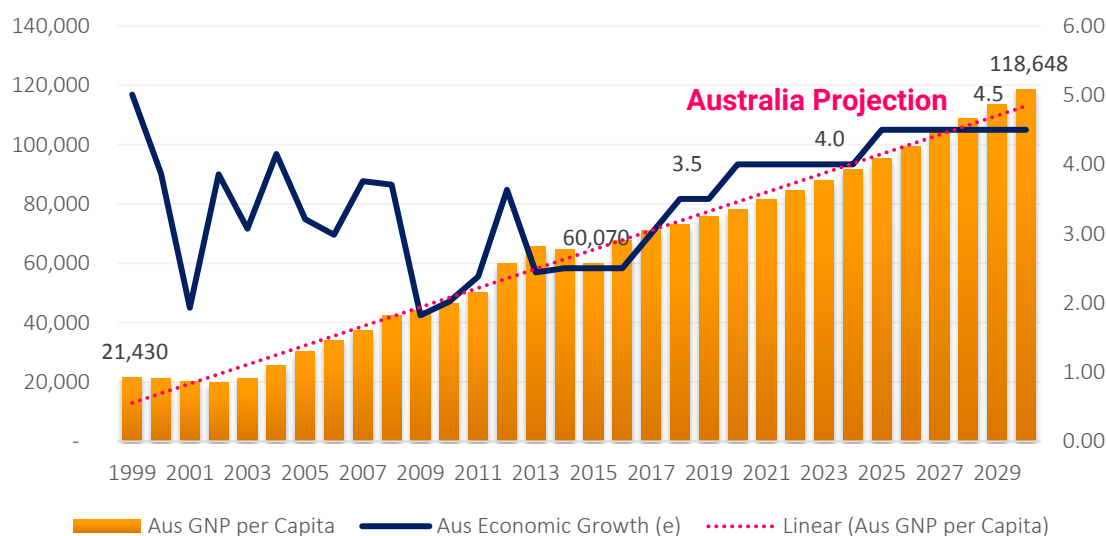
Source: Calculated using ADB Statistics and WDI World Bank Data.

⁷⁷ The IMF, *World Economic Outlook: Too Slow for Too Long*, April 2016.

⁷⁸ YIF, *Visi Indonesia 2030*, 2007 (the author was one of the co-authors of this report).



Graphic 10. **Australia's Economic Growth (%) and GNI per Capita (current US\$) 1999-2030**



Source: Calculated using ADB Statistics and WDI World Bank Data.

Indonesia needs to boost its industrial sector in order to achieve the estimated average economic growth of 7.5% from 2019-2024 and 8.5% from 2025-2030. This section makes projections on several selected supporting variables from 2016-2024. It is limited to 2024 as, beyond that, predictions are less reliable. The complete results of projections can be seen in **Appendix 6**.

Projections in **Appendix 6** show that, following the conclusion of a bilateral economic agreement, average economic growth in Indonesia and Australia will rise significantly over the next 10 years. Comparative results from the periods of 1999 to 2015 and 2016 to 2024 show that Indonesia's average economic growth will increase from 5% to 6.6% while Australia's average economic growth will increase from 3.1% to 3.6%. Indonesia's economic growth is estimated to be driven by growth in the service and industrial sectors of 8.3% (increasing from 6.4% in the previous period) and 7.1% (increasing from 4.3% in the previous period) respectively. Meanwhile, agricultural sector growth will remain lower than total economic growth, yet it is estimated to increase from 3.4% to 5.2%. Indonesia's inflation rate is predicted to remain stable at 4%-4.5% which is, on average, lower than in the previous period from 9.4% to 4.2%. Indonesia's average economic growth over the next ten years will be higher than the inflation rate. This confirms an economic productivity increase in Indonesia. On the supply side, Indonesia needs to improve its infrastructure and this analysis estimates Indonesia needs to raise government expenditure on infrastructure from 0.92% of GDP in 2013 to 6.82% in 2024. In trade, Indonesian exports to Australia will increase from 5.3% to 7% while imports from Australia will increase from 5.4% to 6%. In total, Indonesian exports to Australia will be marginally higher than imports from Australia. This is possible if Australia increases its FDI inflows in Indonesia's production sector and then imports Indonesian-made products back to Australia. This production network will be possible if the proportion of Australia's FDI inflows in Indonesia grows from 0.1% to 0.6%.



Appendix 1

RCA AND CMSA ANALYSIS OF INDONESIA AND AUSTRALIA (2015)

Australia has 'great' products
 Indonesia has 'great' products
 Both have 'great' products
 Neither has 'great' products

| HS-2 | LIVE ANIMALS; ANIMAL PRODUCTS | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-----------|--------------|-------------------|-------------|
| '01 | Live animals | 0.03 | -58,343 | None | 5.81 | 311,790 | Great |
| '02 | Meat and edible meat offal | 0.02 | 1,772 | Potential | 7.49 | 2,730,401 | Great |
| '03 | Fish, crustaceans, molluscs, aquatic invertebrates | 2.87 | 336,780 | Great | 0.87 | -63,047 | None |
| '04 | Dairy products, eggs, honey, edible animal product | 0.56 | 177,668 | Potential | 2.11 | -183,235 | Challenging |
| '05 | Products of animal origin | 0.26 | 11,387 | Potential | 2.06 | 115,223 | Great |

| HS-2 | VEGETABLE PRODUCTS | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-----------|--------------|-------------------|-------------|
| '06 | Live trees, plants, bulbs, roots, cut flowers etc. | 0.10 | -977 | None | 0.04 | -4,559 | None |
| '07 | Edible vegetables and certain roots and tubers | 0.15 | -3,106 | None | 1.92 | 415,874 | Great |
| '08 | Edible fruit, nuts, peel of citrus fruit, melons | 0.48 | -14,264 | None | 1.15 | 712,084 | Great |
| '09 | Coffee, tea, mate and spices | 4.67 | 650,795 | Great | 0.08 | 2,489 | Potential |
| '10 | Cereals | 0.08 | 70,070 | Potential | 5.59 | -438,121 | Challenging |
| '11 | Milling products, malt, starches, inulin, wheat gluten | 0.28 | -46,213 | None | 3.11 | -6,623 | Challenging |
| '12 | Oil seed, oleic fruits, grain, seed, fruit, etc., nets | 0.36 | 63,490 | Potential | 1.75 | -358,618 | Challenging |
| '13 | Lac, gums, resins, vegetable saps and extracts nets | 1.36 | 43,623 | Great | 0.14 | 5,105 | Potential |
| '14 | Vegetable plaiting materials, vegetable products nets | 10.49 | 29,061 | Great | 0.02 | 16 | Potential |



| HS-2 | ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGEPRODUCTS; PREPARED EDIBLE FATS;ANIMAL OR VEGETABLE WAXES | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|---|-----------------|----------------------|-------------|-----------------|----------------------|-----------|
| '15 | Animal, vegetable fats and oils, cleavage products, etc. | 18.24 | -1,066,628 | Challenging | 0.60 | 30,816 | Potential |

| HS-2 | PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|-----------------|----------------------|-------------|-----------------|----------------------|-------------|
| '16 | Meat, fish and seafood food preparations | 2.43 | 339,926 | Great | 0.23 | -19,968 | None |
| '17 | Sugars and sugar confectionery | 0.53 | 66,066 | Potential | 0.39 | -45,915 | None |
| '18 | Cocoa and cocoa preparations | 2.97 | -56,721 | Challenging | 0.32 | -49,644 | None |
| '19 | Cereal, flour, starch, milk preparations and products | 1.06 | 36,325 | Great | 0.83 | -176,472 | None |
| '20 | Vegetable, fruit, nut, etc. food preparations | 0.68 | 136,663 | Potential | 0.18 | -74,561 | None |
| '21 | Miscellaneous edible preparations | 1.12 | 92,941 | Great | 1.32 | 431,833 | Great |
| '22 | Beverages, spirits and vinegar | 0.07 | -76,552 | None | 1.56 | -276,027 | Challenging |
| '23 | Residues, wastes of food industry, animal fodder | 1.00 | 165,957 | Great | 0.57 | -134,932 | None |
| '24 | Tobacco and manufactured tobacco substitutes | 1.65 | -34,169 | Challenging | 0.11 | -71,647 | None |

| HS-2 | MINERAL PRODUCTS | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|---|-----------------|----------------------|-------------|-----------------|----------------------|-------------|
| '25 | Salt, Sulphur, earth, stone, plaster, lime and cement | 0.52 | 67,978 | Potential | 0.91 | 50,472 | Potential |
| '26 | Ores, slag and ash | 2.38 | -677,121 | Challenging | 25.78 | -2,389,232 | Challenging |
| '27 | Mineral fuels, oils, distillation products, etc. | 2.15 | 738,687 | Great | 2.27 | 5,393,400 | Great |

| HS-2 | PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|-----------------|----------------------|-----------|-----------------|----------------------|-----------|
| '28 | Inorganic chemicals, precious metal compound, isotopes | 0.55 | 129,042 | Potential | 4.32 | 857,040 | Great |
| '29 | Organic chemicals | 0.54 | -1,171,440 | None | 0.06 | 89,297 | Potential |
| '30 | Pharmaceutical products | 0.10 | 84,735 | Potential | 0.30 | -2,290,740 | None |
| '31 | Fertilizers | 0.43 | -87,715 | None | 0.38 | -66,396 | None |



| HS-2 | PRODUCTS OF THE CHEMICAL OR ALLIED INDUSTRIES | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|---|--------------|-------------------|-------------|--------------|-------------------|-------|
| '32 | Tanning, dyeing extracts, tannins, derives, pigments etc. | 0.75 | 288,605 | Potential | 0.75 | -83,341 | None |
| '33 | Essential oils, perfumes, cosmetics, toiletries | 0.52 | -58,666 | None | 0.40 | -37,455 | None |
| '34 | Soaps, lubricants, waxes, candles, modelling pastes | 1.10 | -218,678 | Challenging | 0.26 | -16,288 | None |
| '35 | Aluminides, modified starches, glues, enzymes | 0.16 | -11,657 | None | 0.57 | -99,544 | None |
| '36 | Explosives, pyrotechnics, matches, pyrophoric, etc. | 0.04 | -13,291 | None | 0.55 | -15,838 | None |
| '37 | Photographic or cinematographic goods | 0.01 | 1,075 | Potential | 0.07 | -11,111 | None |
| '38 | Miscellaneous chemical products | 1.75 | -439,143 | Challenging | 0.18 | -109,636 | None |

| HS-2 | PLASTICS AND ARTICLES THEREOF; RUBBER AND ARTICLES THEREOF | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-------------|--------------|-------------------|-----------|
| '39 | Plastics and articles thereof | 0.38 | -343,126 | None | 0.13 | -141,531 | None |
| '40 | Rubber and articles thereof | 4.02 | -3,631,143 | Challenging | 0.10 | 26,442 | Potential |

| HS-2 | RAW HIDES AND SKINS, LEATHER, FURSKINS AND ARTICLES THEREOF; SADDLERY AND HARNESS; TRAVEL GOODS, HANDBAGS AND SIMILAR CONTAINERS; ARTICLES OF ANIMAL GUT | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-----------|--------------|-------------------|-------------|
| '41 | Raw hides and skins (other than fur skins) and leather | 0.43 | 2,364 | Potential | 2.76 | -79,472 | Challenging |
| '42 | Articles of leather, animal gut, harness, travel goods | 0.71 | 203,736 | Potential | 0.07 | -5,022 | None |
| '43 | Fur skins and artificial fur, manufactures thereof | 0.02 | 472 | Potential | 0.06 | 3,596 | Potential |

| HS-2 | WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL; CORK AND ARTICLES OF CORK; MANUFACTURES OF STRAW, OF ESPARTO OR OF OTHER PLAINTING MATERIALS; BASKETWARE AND WICKERWORK | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|---|--------------|-------------------|-------|--------------|-------------------|-------|
| '44 | Wood and articles of wood, wood charcoal | 3.43 | 811,776 | Great | 0.85 | -59,553 | None |
| '45 | Cork and articles of cork | 0.00 | -201 | None | 0.03 | -1,890 | None |
| '46 | Manufactures of plaiting material, basketwork, etc. | 3.33 | 24,098 | Great | 0.01 | -225 | None |



| HS-2 | PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL; RECOVERED (WASTE AND SCRAP) PAPER OR PAPERBOARD; PAPER AND PAPERBOARD AND ARTICLES THEREOF | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|-----------------|----------------------|-------------|-----------------|----------------------|-----------|
| '47 | Pulp of wood, fibrous cellulosic material, waste etc. | 4.94 | 836,165 | Great | 0.37 | -33,972 | None |
| '48 | Paper and paperboard, articles of pulp, paper and board | 2.11 | -137,863 | Challenging | 0.43 | 19,252 | Potential |
| '49 | Printed books, newspapers, pictures etc. | 0.07 | -3,438 | None | 0.44 | -16,556 | None |

| HS-2 | TEXTILES AND TEXTILE ARTICLES | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|---|-----------------|----------------------|-------------|-----------------|----------------------|-------------|
| '50 | Silk | 0.01 | 169 | Potential | 0.09 | 1,686 | Potential |
| '51 | Wool, animal hair, horsehair yarn and fabric thereof | 0.02 | 300 | Potential | 14.70 | -148,341 | Challenging |
| '52 | Cotton | 1.35 | 111,711 | Great | 1.31 | -1,193,221 | Challenging |
| '53 | Vegetable textile fibres nets, paper yarn, woven fabric | 0.29 | -4,634 | None | 0.01 | -598 | None |
| '54 | Manmade filaments | 1.73 | -551,715 | Challenging | 0.03 | -8,402 | None |
| '55 | Manmade staple fibres | 5.00 | -426,737 | Challenging | 0.03 | -11,786 | None |
| '56 | Wadding, felt, nonwovens, yarns, twine, cordage, etc. | 0.69 | 33,406 | Potential | 0.19 | 10,503 | Potential |
| '57 | Carpets and other textile floor coverings | 0.44 | 1,050 | Potential | 0.20 | -15,332 | None |
| '58 | Special woven or tufted fabric, lace, tapestry etc. | 0.37 | -4,600 | None | 0.02 | -2,950 | None |
| '59 | Impregnated, coated or laminated textile fabric | 0.49 | 1,188 | Potential | 0.07 | -7,256 | None |
| '60 | Knitted or crocheted fabric | 0.21 | -26,819 | None | 0.02 | -9,278 | None |
| '61 | Articles of apparel, accessories, knit or crochet | 2.17 | 1,088,420 | Great | 0.03 | -29,909 | None |
| '62 | Articles of apparel, accessories, not knit or crochet | 2.22 | 298,538 | Great | 0.03 | -27,149 | None |
| '63 | Other made textile articles, sets, worn clothing etc. | 0.40 | -56,326 | None | 0.16 | 4,270 | Potential |



| HS-2 | FOOTWEAR, HEADGEAR, UMBRELLAS, SUN UMBRELLAS, WALKING-STICKS, SEAT-STICKS, WHIPS, RIDING-CROPS AND PARTS THEREOF; PREPARED FEATHERS AND ARTICLES MADE THEREWITH; ARTIFICIAL FLOWERS; ARTICLES OF HUMAN HAIR | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|---|--------------|-------------------|-------|--------------|-------------------|-----------|
| '64 | Footwear, gaiters and the like, parts thereof | 4.22 | 1,822,339 | Great | 0.04 | -1,142 | None |
| '65 | Headgear and parts thereof | 0.32 | -5,431 | None | 0.09 | -6,431 | None |
| '66 | Umbrellas, walking-sticks, seat-sticks, whips, etc. | 0.09 | -30 | None | 0.02 | -1,225 | None |
| '67 | Bird skin, feathers, artificial flowers, human hair | 4.10 | 1,495 | Great | 0.01 | 81 | Potential |

| HS-2 | ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS; CERAMIC PRODUCTS; GLASS AND GLASSWARE | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-------|--------------|-------------------|-----------|
| '68 | Stone, plaster, cement, asbestos, mica, etc. articles | 0.28 | -56,748 | None | 0.08 | -14,897 | None |
| '69 | Ceramic products | 0.67 | -86,739 | None | 0.11 | -10,614 | None |
| '70 | Glass and glassware | 0.48 | -88,230 | None | 0.15 | 7,287 | Potential |

| HS-2 | NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES, PRECIOUS METALS, METALS CLAD WITH PRECIOUS METAL AND ARTICLES THEREOF; IMITATION JEWELLERY; COIN | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-----------|--------------|-------------------|-------------|
| '71 | Pearls, precious stones, metals, coins, etc. | 0.83 | 2,507,976 | Potential | 1.74 | -3,998,115 | Challenging |

| HS-2 | BASE METALS AND ARTICLES OF BASE METAL | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-------------|--------------|-------------------|-------------|
| '72 | Iron and steel | 0.41 | 413,831 | Potential | 0.25 | -413,523 | None |
| '73 | Articles of iron or steel | 0.40 | -662,029 | None | 0.19 | -135,902 | None |
| '74 | Copper and articles thereof | 1.05 | -1,287,434 | Challenging | 1.89 | -203,726 | Challenging |
| '75 | Nickel and articles thereof | 4.67 | 285,183 | Great | 0.64 | -507,924 | None |
| '76 | Aluminium and articles thereof | 0.31 | -291,553 | None | 1.79 | -1,492,348 | Challenging |
| '78 | Lead and articles thereof | 0.34 | 7,813 | Potential | 10.46 | -24,181 | Challenging |



| HS-2 | BASE METALS AND ARTICLES OF BASE METAL | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-----------|--------------|-------------------|-------------|
| '79 | Zinc and articles thereof | 0.05 | 3,981 | Potential | 4.81 | -91,755 | Challenging |
| '80 | Tin and articles thereof | 32.44 | 457,287 | Great | 0.11 | -2,319 | None |
| '81 | Other base metals, cermet's, articles thereof | 0.07 | 7,746 | Potential | 0.87 | 18,499 | Potential |
| '82 | Tools, implements, cutlery, etc. of base metal | 0.13 | 7,811 | Potential | 0.20 | -129,298 | None |
| '83 | Miscellaneous articles of base metal | 0.20 | -171,232 | None | 0.13 | -25,494 | None |

| HS-2 | MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT; PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS, AND PARTS AND ACCESSORIES OF SUCH ARTICLES | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|---|--------------|-------------------|-----------|--------------|-------------------|-------|
| '84 | Machinery, nuclear reactors, boilers, etc. | 0.35 | 1,393,930 | Potential | 0.23 | -399,198 | None |
| '85 | Electrical, electronic equipment | 0.49 | -641,553 | None | 0.10 | -482,630 | None |

| HS-2 | VEHICLES, AIRCRAFT, VESSELS AND ASSOCIATED TRANSPORT EQUIPMENT | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-----------|--------------|-------------------|-----------|
| '86 | Railway, tramway locomotives, rolling stock, equipment | 0.02 | -12,866 | None | 0.23 | -13,732 | None |
| '87 | Vehicles other than railway, tramway | 0.41 | 1,922,587 | Potential | 0.17 | -212,606 | None |
| '88 | Aircraft, spacecraft, and parts thereof | 0.03 | -204,713 | None | 0.36 | -119,362 | None |
| '89 | Ships, boats and other floating structures | 0.54 | -107,058 | None | 0.21 | 134,898 | Potential |

| HS-2 | OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; CLOCKS AND WATCHES; MUSICAL INSTRUMENTS; PARTS AND ACCESSORIES THEREOF | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|---|--------------|-------------------|-----------|--------------|-------------------|-----------|
| '90 | Optical, photo, technical, medical, etc. apparatus | 0.26 | 761,983 | Potential | 0.44 | -180,621 | None |
| '91 | Clocks and watches and parts thereof | 0.05 | 12,303 | Potential | 0.18 | 16,111 | Potential |
| '92 | Musical instruments, parts and accessories | 12.39 | 278,679 | Great | 0.12 | 1,416 | Potential |



| HS-2 | ARMS AND AMMUNITION; PARTS AND ACCESSORIES THEREOF | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|--|--------------|-------------------|-------|--------------|-------------------|-------|
| '93 | Arms and ammunition, parts and accessories thereof | 0.00 | -2,259 | None | 0.53 | -5,193 | None |

| HS-2 | MISCELLANEOUS MANUFACTURED ARTICLES | RCA Ina 2015 | SCF INA 2011-2015 | Class | RCA Aus 2015 | SCF AUS 2011-2015 | Class |
|------|---|--------------|-------------------|-----------|--------------|-------------------|-------------|
| '94 | Furniture, lighting, signs, prefabricated buildings | 0.90 | -138,279 | None | 0.08 | -46,134 | None |
| '95 | Toys, games, sports requisites | 0.85 | 444,517 | Potential | 0.24 | -8,269 | None |
| '96 | Miscellaneous manufactured articles | 0.70 | -94,941 | None | 0.09 | -6,498 | None |
| '97 | Works of art, collectors pieces and antiques | 0.10 | 10,895 | Potential | 0.25 | -61,006 | None |
| '99 | Commodities not elsewhere specified | 0.30 | 841,692 | Potential | 1.71 | -1,720,223 | Challenging |



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Appendix 2

GLOBAL VALUE CHAIN INDICATORS OF INDONESIA & AUSTRALIA WITHIN THE TPP CONTEXT

| COUNTRY | DISTANCE TO FINAL DEMAND | NUMBER OF PRODUCTION STAGES | | PARTICIPATION INDEX | |
|--------------------|--------------------------|-----------------------------|----------------|---------------------|----------|
| | | DOMESTIC | INTER-NATIONAL | FORWARD | BACKWARD |
| Australia | Medium | Medium | Low | High | Low |
| Canada | Low | Low | Low | Low | Low |
| Chile | Medium | Medium | Medium | High | Low |
| Japan | Low | Medium | Low | High | Low |
| Mexico | Low | Low | Low | Low | Medium |
| New Zealand | Medium | Medium | Low | Low | Low |
| United States | Low | Medium | Low | Medium | Low |
| China | High | High | Low | Low | Medium |
| Indonesia | Medium | Medium | Low | High | Low |
| Brunei Darussalam | High | Low | Low | High | Low |
| Malaysia | High | Medium | High | Medium | High |
| Singapore | Medium | Low | High | Medium | High |
| Viet Nam | Low | Low | High | Low | High |
| Average | 2.1 | 1.6 | 0.3 | 23.7 | 23.6 |
| Max | 2.9 | 2.3 | 0.8 | 49.9 | 33.8 |
| Min | 1.6 | 1.3 | 0.1 | 11.3 | 11.5 |
| Standard Deviation | 0.4 | 0.2 | 0.2 | 12.4 | 8.5 |

Source: Compiled using the OECD Statistical Data.



Appendix 3

FOREIGN STUDENTS IN AUSTRALIA BY STATE/TERRITORY (2014)

| RANK | NATIONALITY | NSW | VIC | QLD | SA | WA | TAS | NT | ACT | NAT | TOTAL |
|------|----------------------------|----------------|----------------|---------------|---------------|---------------|--------------|--------------|---------------|------------|----------------|
| 1 | China | 59,675 | 49,376 | 17,834 | 11,785 | 7,064 | 1,431 | 136 | 5,531 | 66 | 152,898 |
| 2 | India | 13,756 | 28,824 | 11,751 | 3,404 | 4,146 | 364 | 200 | 645 | 6 | 63,096 |
| 3 | Vietnam | 9,495 | 13,692 | 2,840 | 1,348 | 2,028 | 86 | 96 | 511 | 25 | 30,121 |
| 4 | Korea, Republic of (South) | 13,102 | 4,357 | 6,582 | 1,016 | 1,856 | 192 | 71 | 822 | 18 | 28,016 |
| 5 | Thailand | 16,558 | 5,205 | 2,324 | 265 | 869 | 92 | 75 | 245 | 9 | 25,642 |
| 6 | Brazil | 9,549 | 2,741 | 6,176 | 1,017 | 2,600 | 9 | 9 | 121 | 45 | 22,267 |
| 7 | Malaysia | 4,019 | 8,976 | 2,676 | 1,859 | 3,448 | 643 | 18 | 428 | 4 | 22,071 |
| 8 | Nepal | 10,432 | 3,697 | 2,351 | 342 | 804 | 235 | 185 | 121 | 13 | 18,180 |
| 9 | Indonesia | 9,760 | 4,964 | 890 | 412 | 1,487 | 20 | 142 | 248 | 2 | 17,925 |
| 10 | Pakistan | 5,522 | 6,367 | 775 | 237 | 1,351 | 60 | 73 | 348 | 0 | 14,733 |
| 11 | Other nationalities | 67,936 | 47,687 | 43,725 | 9,041 | 20,503 | 1,438 | 890 | 3,421 | 270 | 194,911 |
| | TOTAL | 219,804 | 175,886 | 97,924 | 30,726 | 46,156 | 4,570 | 1,895 | 12,441 | 458 | 589,860 |

Source: https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2014.aspx#Pivot_Table



Appendix 4

INDONESIAN STUDENTS IN AUSTRALIA BY EDUCATION LEVEL (2011-2014)

| EDUCATION LEVEL | 2011 | 2012 | 2013 | 2014 |
|------------------|---------------|---------------|---------------|---------------|
| Higher Education | 9,321 | 9,009 | 8,707 | 8,471 |
| VET | 5,685 | 5,930 | 5,898 | 6,810 |
| Schools | 304 | 289 | 267 | 230 |
| ELICOS | 1,739 | 1,568 | 1,603 | 1,762 |
| Non-award | 789 | 636 | 633 | 652 |
| TOTAL | 17,838 | 17,432 | 17,108 | 17,925 |

Note: Higher Education=university education; VET=vocational education and training; ELICOS=English Language Intensive Courses for Overseas Students; Schools=primary and secondary education.

Source: https://internationaleducation.gov.au/research/International-Student-Data/Pages/InternationalStudentData2014.aspx#Pivot_Table



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Appendix 5

INDONESIAN HE & VET STUDENTS IN AUSTRALIA BY FIELD OF STUDY(2013)

| BROAD FIELD | HIGHER EDUCATION | % | BROAD FIELD | VET | % |
|---|---------------------|-------------|---|--------------|-------------|
| Management & Commerce | 4,091 | 47% | Management & Commerce | 3,270 | 55% |
| Society & Culture | 805 | 9% | Food, Hospitality and Personal Services | 1,589 | 27% |
| Engineering & Related Technologies | 752 | 9% | Information Technology | 423 | 7% |
| Natural & Physical Sciences | 710 | 8% | Society & Culture | 228 | 4% |
| Creative Arts | 708 | 8% | Creative Arts | 116 | 2% |
| Information Technology | 569 | 7% | Engineering & Related Technologies | 90 | 2% |
| Health | 272 | 3% | Mixed Field Programs | 52 | 1% |
| Architecture & Building | 228 | 3% | Health | 44 | 1% |
| Education | 194 | 2% | Architecture & Building | 40 | 1% |
| Dual Qualification | 191 | 2% | Agriculture, Environment and Related Studies | 40 | 1% |
| Agriculture, Environment and Related Studies | 115 | 1% | Education | 26 | 0% |
| Mixed Field Programs | 56 | 1% | Natural & Physical Sciences | 6 | 0% |
| Food, Hospitality and Personal Services | 16 | 0% | Dual Qualification | 0 | 0% |
| TOTAL | 8,707 | 100% | TOTAL | 5,924 | 100% |

Source: Compiled using data from the Embassy of the Republic of Indonesia (KBRI), Canberra.



Appendix 6

SELECTED MACROECONOMIC PROJECTIONS

| YEAR | INDONESIA ECONOMIC GROWTH | INDONESIA INFLATION RATE (Deflator GDP) | INDONESIA AGRICULTURE GROWTH | INDONESIA INDUSTRIAL GROWTH | INDONESIA SERVICE GROWTH | INDONESIA EXPORT TO AUSTRALIA GROWTH (Goods & Services) | INDONESIA IMPORT FROM AUSTRALIA GROWTH (Goods & Services) | AUSTRALIA'S FDI IN INDONESIA PROPORTION | AUSTRALIA ECONOMIC GROWTH |
|------|---------------------------|---|------------------------------|-----------------------------|--------------------------|---|---|---|---------------------------|
| 1999 | 0.8 | 14.2 | 2.2 | 2.0 | -1.0 | -31.8 | -40.7 | 0.2 | 5.0 |
| 2000 | 4.9 | 9.6 | 1.9 | 5.9 | 5.2 | 26.5 | 25.9 | 0.0 | 3.9 |
| 2001 | 3.6 | 14.3 | 3.3 | 2.7 | 4.9 | 0.6 | 4.2 | 0.0 | 1.9 |
| 2002 | 4.5 | 5.9 | 3.4 | 4.3 | 5.2 | -1.2 | -4.2 | 0.6 | 3.9 |
| 2003 | 4.8 | 5.5 | 3.8 | 3.8 | 6.4 | 5.9 | 1.6 | 0.0 | 3.1 |
| 2004 | 5.0 | 8.6 | 2.8 | 3.9 | 7.1 | 13.5 | 26.7 | 0.0 | 4.1 |
| 2005 | 5.7 | 14.3 | 2.7 | 4.7 | 7.9 | 16.6 | 17.8 | 0.0 | 3.2 |
| 2006 | 5.5 | 14.1 | 3.4 | 4.5 | 7.3 | 9.4 | 8.6 | 0.0 | 3.0 |
| 2007 | 6.3 | 11.3 | 3.5 | 4.7 | 9.0 | 8.5 | 9.1 | 0.1 | 3.8 |
| 2008 | 6.0 | 18.1 | 4.8 | 3.7 | 8.7 | 9.5 | 10.0 | 0.0 | 3.7 |
| 2009 | 4.6 | 8.3 | 4.0 | 3.6 | 5.8 | -9.7 | -15.0 | 0.0 | 1.8 |
| 2010 | 6.2 | 8.2 | 3.0 | 4.9 | 8.4 | 15.3 | 17.3 | 0.0 | 2.0 |
| 2011 | 6.2 | 7.5 | 3.9 | 6.3 | 8.4 | 14.8 | 15.0 | 0.0 | 2.4 |
| 2012 | 6.0 | 3.8 | 4.6 | 5.3 | 6.8 | 1.6 | 8.0 | 0.1 | 3.6 |
| 2013 | 5.6 | 4.7 | 4.2 | 4.2 | 6.5 | 4.2 | 1.9 | 0.0 | 2.4 |
| 2014 | 5.0 | 5.4 | 4.2 | 4.2 | 6.1 | 1.0 | 2.2 | 0.0 | 2.5 |
| 2015 | 4.8 | 5.3 | 3.0 | 4.2 | 6.5 | 5.0 | 4.0 | 0.0 | 2.5 |
| 2016 | 4.9 | 3.6 | 3.0 | 4.2 | 6.5 | 5.0 | 4.0 | 0.4 | 2.5 |
| 2017 | 5.3 | 3.7 | 4.0 | 6.0 | 7.0 | 6.0 | 5.0 | 0.5 | 3.0 |
| 2018 | 6.0 | 4.0 | 5.0 | 7.0 | 8.0 | 6.0 | 5.0 | 0.6 | 3.5 |



| YEAR | INDONESIA ECONOMIC GROWTH | INDONESIA INFLATION RATE (Deflator GDP) | INDONESIA AGRICULTURE GROWTH | INDONESIA INDUSTRIAL GROWTH | INDONESIA SERVICE GROWTH | INDONESIA EXPORT TO AUSTRALIA GROWTH (Goods & Services) | INDONESIA IMPORT FROM AUSTRALIA GROWTH (Goods & Services) | AUSTRALIA'S FDI IN INDONESIA PROPORTION | AUSTRALIA ECONOMIC GROWTH |
|--------------------------|---------------------------|---|------------------------------|-----------------------------|--------------------------|---|---|---|---------------------------|
| 2019 | 6.0 | 4.0 | 5.0 | 7.0 | 8.0 | 6.0 | 5.0 | 0.6 | 3.5 |
| 2020 | 7.5 | 4.5 | 6.0 | 8.0 | 9.0 | 8.0 | 7.0 | 0.7 | 4.0 |
| 2021 | 7.5 | 4.5 | 6.0 | 8.0 | 9.0 | 8.0 | 7.0 | 0.7 | 4.0 |
| 2022 | 7.5 | 4.5 | 6.0 | 8.0 | 9.0 | 8.0 | 7.0 | 0.7 | 4.0 |
| 2023 | 7.5 | 4.5 | 6.0 | 8.0 | 9.0 | 8.0 | 7.0 | 0.7 | 4.0 |
| 2024 | 7.5 | 4.5 | 6.0 | 8.0 | 9.0 | 8.0 | 7.0 | 0.7 | 4.0 |
| Average 1999-2015 | 5.0 | 9.4 | 3.4 | 4.3 | 6.4 | 5.3 | 5.4 | 0.1 | 3.1 |
| Average 2016-2024 | 6.6 | 4.2 | 5.2 | 7.1 | 8.3 | 7.0 | 6.0 | 0.6 | 3.6 |

Source: Calculations using ADB Statistics and WDI World Bank Data.



Annex 2

LIST OF MEETING ATTENDEES

1. IA-BPG Meeting 1 (Perth, 26 April 2016)

| No. | NAME | ORGANIZATION |
|-----|-----------------|---|
| 1 | Bryan Clark | ACCI |
| 2 | Ian Bennett | ACCI |
| 3 | Wahyuni Bahar | KADIN Indonesia /APINDO |
| 4 | Louise McGrath | Ai Group |
| 5 | David Sutanto | IABC |
| 6 | Debnath Guharoy | AIBC |
| 7 | Phil Turtle | AIBC |
| 8 | Ian Satchwell | AIBC |
| 9 | Noke Kiroyan | Kiroyan Partners |
| 10 | Adi Abidin | Kiroyan Partners |
| 11 | Anthony Orford | Australia Department of Foreign Affairs and Trade |

2. IA-BPG Meeting 2 (Jakarta, 2 June 2016)

| No. | NAME | ORGANIZATION |
|-----|------------------------|---|
| 1 | Bryan Clark | ACCI |
| 2 | Shinta Widjaja Kamdani | KADIN Indonesia /APINDO |
| 3 | Wahyuni Bahar | KADIN Indonesia /APINDO |
| 4 | Shanti Samdasani | KADIN Indonesia /APINDO |
| 5 | Sherly Susilo | APINDO |
| 6 | Louise McGrath | Ai Group |
| 7 | David Sutanto | IABC |
| 8 | George Marantika | IABC |
| 9 | Debnath Guharoy | AIBC |
| 10 | Phil Turtle | AIBC |
| 11 | Ian Satchwell | AIBC |
| 12 | Noke Kiroyan | Kiroyan Partners |
| 13 | Anton Rizki Sulaiman | Kiroyan Partners |
| 14 | Adi Abidin | Kiroyan Partners |
| 15 | Margareth Olivia | Kiroyan Partners |
| 16 | Fauzi Nasution | Kiroyan Partners |
| 17 | Catherine Slack | Kiroyan Partners |
| 18 | Adam Fenton | Kiroyan Partners |
| 19 | Kiki Verico | University of Indonesia |
| 20 | Kyle Springer | Perth USAsia Centre |
| 21 | Djarmiko Witjaksono | Ministry of Trade of Indonesia |
| 22 | Peter Roberts | Australia Department of Foreign Affairs and Trade |
| 23 | Todd Dias | Australia Department of Foreign Affairs and Trade |



3. IA-BPG Meeting 3 (Melbourne, 13 July 2016)

| No. | NAME | ORGANIZATION |
|-----|----------------------|---|
| 1 | Bryan Clark | ACCI |
| 2 | Wahyuni Bahar | KADIN Indonesia /APINDO |
| 3 | George Marantika | KADIN Indonesia |
| 4 | Sherly Susilo | APINDO |
| 5 | Louise McGrath | Ai Group |
| 6 | David Sutanto | IABC |
| 7 | Debnath Guharoy | AIBC |
| 8 | Phil Turtle | AIBC |
| 9 | Ian Satchwell | AIBC |
| 10 | Noke Kiroyan | Kiroyan Partners |
| 11 | Anton Rizki Sulaiman | Kiroyan Partners |
| 12 | Kate Sullivan | Australia Department of Foreign Affairs and Trade |
| 13 | Frances Lisson | Australia Department of Foreign Affairs and Trade |
| 14 | Cassandra Harton | Australia Department of Foreign Affairs and Trade |
| 15 | Caroline McCarthy | Australia Department of Foreign Affairs and Trade |
| 16 | Deddy Saleh | Ministry of Trade of Indonesia |

4. IA-BPG Meeting 4 (Jakarta, 1 August 2016)

| No. | NAME | ORGANIZATION |
|-----|-------------------|---|
| 1 | Bryan Clark | ACCI |
| 2 | Ian Bennett | ACCI |
| 3 | Wahyuni Bahar | KADIN Indonesia /APINDO |
| 4 | George Marantika | KADIN Indonesia /APINDO |
| 5 | Jessica Callista | KADIN Indonesia |
| 6 | Astari Adityawati | KADIN Indonesia |
| 7 | Sherly Susilo | APINDO |
| 8 | David Sutanto | IABC |
| 9 | Debnath Guharoy | AIBC |
| 10 | Phil Turtle | AIBC |
| 11 | Ian Satchwell | AIBC |
| 12 | Noke Kiroyan | Kiroyan Partners |
| 13 | Adi Abidin | Kiroyan Partners |
| 14 | Margareth Olivia | Kiroyan Partners |
| 15 | Fauzi Nasution | Kiroyan Partners |
| 16 | Adam Fenton | Kiroyan Partners |
| 17 | James Nation | Australia Department of Foreign Affairs and Trade |



Annex 3

SUMMARY OF STAKEHOLDER CONSULTATION PROCESS AND RESULTS [INDONESIA]

The Indonesia-Australia Comprehensive Economic Partnership Agreement plan has been discussed since 2012. The agreement is expected to improve and increase bilateral cooperation as well as create significant positive economic growth for both countries. Specifically, through this cooperation, the two countries seek to overcome obstacles in trade, investment and cooperation in priority sectors that drive economic growth.

As in 2012, the Indonesian Chamber of Commerce and Industry (KADIN Indonesia), as part of the IA-BPG (Indonesia-Australia Business Partnership Group), has conducted consultations with stakeholders by seeking feedback and input from member organisations. The consultations aimed to identify perceived obstacles, challenges, expectations and opportunities presented by the IA-CEPA. Kiroyan Partners, a consulting firm involved in the preparation of the IA-BPG Position Paper for IA-CEPA in 2012, once again collected data from various sources in the compilation of this report. Stakeholder consultations consisted of direct interviews and focus group discussions with representatives of the associations. A total of 54 associations were involved in this process (see list in **Annex 4**).

KEY QUESTIONS IN STAKEHOLDER CONSULTATIONS

The stakeholder consultation process used a number of open-ended key questions to guide the interviews and focus group discussions/FGD (on 30 May 2016) and encouraged answers to be supported by evidence or personal experience.

1. How does Indonesia's business sector view the IA-CEPA as a means of creating economic development in Indonesia?
2. What issues should be a priority for the Indonesian government in discussions towards the IA-CEPA?
3. What are the expectations and challenges, both in negotiations and implementation, of the IA-CEPA?
4. What forms of cooperation can be achieved with Australian business groups?
5. What forms of cooperation can be achieved with your business group/sector?

VIEWS OF INDONESIA-AUSTRALIA PARTNERSHIP

In general, business associations looked at cooperation with Australia as a good initiative. Geographically, the proximity of Australia and Indonesia provide benefits in the sectors of tourism, education and competitive commodities such as agricultural products from Australia or plantations from Indonesia. IA-CEPA will attract foreign investment opportunities in Indonesia to encourage activities in the real sector. In addition, IA-CEPA will positively impact technological and scientific development in Indonesia.



THE OPPORTUNITIES

- Indonesia still requires additional foreign capital in the form of investments in the production of goods, and services. Attractive investment opportunities in Indonesia will boost domestic energy consumption, create employment, and increase productivity as well as the quality of goods and services.
- The IA-CEPA creates opportunities for the development of human resources through transfer of technology and science. The need for adjustments of product quality standards of goods and services in Australia will encourage research and development of local products in order to compete in the Australian market. This Increased capacity may also be an indirect impact from Australian business investment in Indonesia.
- Indonesian tropical wood products, have potential for the Australian market, exported as semi-finished and finished goods. Exports of building materials from Indonesia to Australia has high economic value. Moreover, in the tourism sector, Indonesian art and culture have a high appeal to the Australian market for short tourist visits, or even longer stays for elderly people looking to retire in Indonesia. Additionally, trade in tropical foods was also recognised among several open opportunities for the two countries.⁷⁹
- Cooperation in the field of technology as well as arts and culture is also likely to encourage the growth of small and medium enterprises⁸⁰ in Indonesia. Improved technology infrastructure as part of bilateral relations will have a significant impact on the creative industry.
- Through the IA-CEPA, domestic Indonesian producers can be encouraged to develop high quality (premium) products for the Australian market which has higher purchasing power.

THE RISKS AND CHALLENGES

- Business associations raised concerns about the risks posed by liberalised trade in goods and services in several sectors in the IA-CEPA. In terms of market opportunities, many Indonesian businesses viewed the Australian market warily as Australia's population is roughly one-tenth the size of Indonesia's. Relatively small demand would create relatively high logistics costs for trading with Australia; whereas there is still unmet demand in the Indonesian market.
- Indonesian industry does not have a significant dependence on the availability of raw materials or equipment and machinery from Australia. The availability of raw materials and tools from Australia are not able to compete with other countries, such as Japan, Taiwan, China, Belgium, Norway, Germany, and even the Netherlands for water installation technology.
- Australian agricultural products are believed to have the potential to challenge the growth of the Indonesian agricultural sector, including the sectors of livestock and plantations that are still working to improve the effectiveness and efficiency of business processes in Indonesia.
- In the coal and minerals mining sector, Indonesian businesses view Australia as a strong competitor with similar production value, quality and markets in Asia.

⁷⁹ Submission from AGI and AGRI

⁸⁰ Submission from APJII



- Different standards between the two countries may negatively impact opportunities for Indonesian goods and services to enter the Australian market. Consequently, this may harm Indonesia's balance of trade with Australia and make it difficult to achieve an even balance of trade between the two countries.

THE BARRIERS

Based on prior experience of bilateral economic activities between Indonesia and Australia, a number of internal (in Indonesia) and external (in Australia) barriers to trade were identified.

The external barriers are associated with Australian policies, such as:

1. **Product quality standards in Australia are too high.**⁸¹ In the agriculture and food sector, the key issue frequently raised during discussions related to the certification of timber as well as food and beverages products processing, including herbal medicinal products. Australia's recognition of existing quality standards in Indonesia should be improved so as to provide opportunities for Indonesian products to enter the Australian market.
2. **Differences in standards of competence in the services and human resources sector.**⁸² These differences in standards give less recognition of Indonesian services and human resources, thereby inhibiting the growth rate of trade in services from Indonesia to Australia. In the mining sector, Indonesia's competence in mining technical services is strong.
3. **The imposition of import tariffs in Australia.**⁸³ The limited total demand for goods and small market potential creates higher costs for exports to Australia. The imposition of import tariffs in Australia increases prices and makes it difficult for Indonesian products to compete in the Australian market.
4. **Australia's trade policy practices.**⁸⁴ Australia has, in the past, accused Indonesia of practicing dumping without the support of strong and valid evidence. This places a burden on Indonesian businesses to provide evidence, which is very costly.
5. **Australia is not making efforts to create a more balanced trade with Indonesia.** For example, in the processed meat sector, Indonesia is the largest consumer of Australian meat. However, Australia does not actively encourage the marketing of processed meat produced in Indonesia. Australia's active role is actually able to push the level of Australian meat consumption through Indonesia.
6. **Australian import permit processes are time consuming,** for instance, coffee importers may spend up to 10-14 days to process import permits for Australia.
7. **Lack of guidance and mapping of business opportunities in Australia.**⁸⁵ The role of the Australian and Indonesian governments to produce guidelines and mapping of business opportunities in Australia will encourage businesses in Indonesia to evaluate the development of business in Australia.

⁸¹ Submission from AELI, APINDO Medan, APINDO NTT, ASEPHI, APIKI, ASRIM, PPA-Kosmetika, and AEKI.

⁸² Submission from ISD.

⁸³ Submission from API and ASKINDO.

⁸⁴ Submission from ASEPHI, AEKI, AMTI, INAplis, AKLI, and ASRIM.

⁸⁵ Repeatedly raised by a majority of stakeholders.



The internal barriers associated with Indonesian policy practices included:

1. **Lack of legal certainty and law enforcement.** Businesses require legal certainty and consistency to be able to assess the feasibility of an investment. This includes law enforcement in Indonesia that is able to protect businesses from ethical irregularities and violations that harm the business sectors.
2. **Lack of, and poor quality of, infrastructure.** Availability of reliable infrastructure primarily affects supply chains and logistics. This creates increasingly high production costs, which lead to higher and less competitive product prices.
3. **Lack of human resources capacity and technology.** The agriculture and livestock sector, for example, lacks the mechanisation or agricultural technology which could effectively increase production capacity. Research and development and product quality improvements are not actively sought, making it difficult to compete in international markets.
4. **Passive role of state institutions in overseas market mapping.** Related government agencies for export development and economic trade attachés have the role of managing data and providing accurate information on market opportunities abroad, or in this case in Australia. A passive approach by state institutions limits the availability of information that can be processed by business actors for business development opportunities.
5. **Standards of quality and competence in the country are still low.** Confronted with high international competition standards, Indonesian companies often experience gaps in standards of quality and competence which inhibit greater international trade.

KEY POINTS

Indonesian businesses proposed several recommendations for both governments as they enter IA-CEPA negotiations, to ensure that the cooperation can produce a positive impact on national economic growth.

1. The government must be able to **identify the priority sectors of the economy** that will be featured in the international trade. Various industry sectors that grew in Indonesia allowed the dilemma in the negotiation of bilateral cooperation, in which one sector would benefit while other sectors have to be sacrificed. Proper identification will help ensure the formulation of strategies and interventions that can be applied to anticipate the risk of loss of the affected sectors of the bilateral cooperation. In terms of packaging, a comprehensive economic cooperation still needs to identify the focus of the trade that will be nationally beneficial. In the sector of flour, it is advisable to exclude it from the IA-CEPA.
2. A domestic industry mapping will **strengthen the government's bargaining position** in the negotiation process, because the government will be able to clearly see the potential of impartial exchange. In general to Australia, in the mining sector we are a competitor, while in the agricultural sector, we are able to complement each other. It is also important for Indonesia to explore the possibility of exchange in the tourism and education sectors.
3. **Improve national standards and mutual recognition of standards.** The need for improvement of national standards and standard setting has been identified in several sectors. For example, in the health certification and standards of fashion and mode. While in other sectors, the recognition of



the same standards needs to be discussed in the negotiations, such as the technical competence of Indonesian professionals.

4. **Development of a reliable business information centre.** Disclosure of clear information from both countries could boost the confidence of businesses to conduct feasibility studies towards business development in each country. The information centre could serve as a reliable reference by businesses to map the opportunities and risks as well as facilitate the marketing of Indonesian products in Australia.
5. **Changes in import policy in Australia.** The policy is expected to encourage Indonesian exports to Australia and open the competitiveness of Indonesian products. Import policies related to tariffs and required administrative documents need to be enforced more effectively and efficiently.
6. **Legal protection from unfair trade politics.** Negotiations in the legal sector need to be robust and transparent in order to protect businesses in dealing with political practices that could harm either party. Settlement of trade disputes needs to be done with the involvement of both countries openly providing proof of any allegations.

Stakeholders also urged the Indonesian government to consider internal improvements to boost the business climate in Indonesia.

1. **Improvements in bureaucratic administration of licensing, legal certainty and legal protection** are the main priorities for attracting foreign investment, particularly from Australia. Legal certainty and protections must be able to accommodate clear and profitable investment calculations. Protection against violations of the law is often an issue of concern for businesses.
2. **Improvements in the quality of supporting infrastructure** are also required by businesses to reduce the costs of production and logistics in particular. In the tourism and creative industry sectors infrastructure is vitally important for marketing goods and services through the use of technology and public facilities as a showcase for Indonesian products.
3. **Increase the capacity of human resources and technology** to encourage production of premium quality goods and services for the Australian market which has a higher purchasing power than Indonesia. Cooperation in education is one of the ways that can be achieved. In addition to student exchange or study programs in Australia, Australian investment in the Indonesian education sector should also be encouraged.
4. **Increase the capacity of state institutions**, primarily the institutions that play a role in the development of export activities or international trade. The role of state institutions that actively manage overseas market information may have an impact on the availability of information on potential markets and investment opportunities for business development in Australia. This information management is essential for establishing and maintaining good relations in the long term.



Annex 4 INDONESIAN STAKEHOLDER CONSULTATIONS

POINTS RAISED IN INTERVIEWS

| ORGANISATION | KEY POINTS |
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| AAUI (General Insurance Association of Indonesia) | <p>Due to its huge potential, the insurance market has attracted international big-name insurance entities, boosted by a generous investment regulations which allow foreign ownership of up to 80% in Indonesian insurance companies. This is due to recognition that risk must be managed in a borderless manner. Australia has some participation in the market, but deeper involvement is welcomed.</p> <ol style="list-style-type: none"> 1. The insurance industry is linked to the policy and preferences from the state because the value of the transaction to claim could be very high – especially in relation to major industries such as aviation. Hence, cooperation among nations to strengthen insurance and re-insurance could be essential, including in relations with Australia. 2. Australian investment opportunities in the industry are substantial. Indonesian regulation of insurance industry is conducive to attract investment in insurance companies. 3. Capacity-building in human capital is critical to be encouraged through international certification cooperation – such as with ANZIIF (Australia-New Zealand Institute of Insurance and Finance) through Indonesian certification institute. The association hopes that its personnel would be recognised internationally. |
| AEKI (Association of Indonesian Coffee Exporters and Industries) | <ol style="list-style-type: none"> 1. Indonesian coffee is a commodity that entered Australia through trade with the US. 2. There must be recognition of Indonesian coffee health certification standards that have been accepted in the international market. Health certification standards used by Australia are too tight and complicate the entry of Indonesian agricultural products to the Australian market. 3. Import license processes take 10-14 days for Indonesian coffee to enter Australia. This impacts businesses which must absorb the added costs while maintaining the quality of the coffee retained during the process. 4. Cooperation opportunities with Australia focus on coffee processing investment so as to encourage the transfer of knowledge and technology. In terms of transfer of knowledge and technology in the coffee industry, Indonesia is relatively better placed than Australia. 5. The government needs to be more persistent in maintaining its bargaining position in the negotiation process. Strengthening the availability of accurate data and information can help ensure the bargaining position is maintained through a thorough understanding of the strengths and weaknesses of the domestic sector. |
| AELI (Association of Indonesian) | <ol style="list-style-type: none"> 1. The Australian market is less attractive for pepper exports because the population is small. The main markets for Indonesian pepper are US, Europe, and Japan. |



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| ORGANISATION | KEY POINTS |
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| Peppers Exporters) | <ol style="list-style-type: none"> 2. There should be equal recognition from Australia of the health standards of Indonesian agricultural products already accepted by European and US markets. 3. Indonesia needs to make internal improvements in setting standards for the quality of national agricultural products. 4. Indonesia needs to make improvements in processing and logistics to lower production costs and improve the competitiveness of national products. |
| AEPI (Association of Indonesian Leather Product Exporters) | <ol style="list-style-type: none"> 1. Indonesian leather exports are largely to Europe, while Indonesia imports lower-quality leather from Australia. As to leather-goods, cooperation with Australia could be beneficial, despite its small market size. Australia could assist in building capacity in producing high-value leather-goods. 2. The association understands that any bilateral relations must strive towards stability in the relationship, as this will affect trade and economic relations. 3. The government must identify priority economic and trade sectors which may closely relate to Australia. Also need to identify what each country requires from the other. 4. The government needs to encourage investment in the industry to strengthen production capacity and quality of leather-goods. 5. The government needs to increase and improve its institutional capacity for international economy and trade, especially to promote Indonesian products overseas. |
| AGI (Indonesian Sugar Association) | <ol style="list-style-type: none"> 1. Demand for sugar in Indonesia is still greater than domestic supply which therefore requires imports from Australia. 2. The capacity of the domestic sugar industry could be enhanced through the transfer of knowledge and technology from Australia. 3. Opportunities for cooperation with Australia include investment in new sugar processing plants, the revitalisation of old factories, and procurement of equipment and machinery. |
| AGII (Indonesian Gas Industry Association) | <ol style="list-style-type: none"> 1. Industrial gas production is oriented to meet domestic demand and not for exports. The weak economic growth trend has led to the current industrial gas over supply. 2. An opportunity of cooperation with Australia, among others, is to invest in industrial development in the real sector for industrial gas consumption. 3. Australia could not compete with Norway and Belgium to supply the raw material of ammonium nitrate, and with Japan and China to supply engines for industrial gases. 4. The government should improve the implementation of policies that can guarantee the security and administration of licensing to reduce the cost of production. 5. The government needs to evaluate the utilisation of domestic energy policy to be become more oriented to domestic infrastructure. Current exports of natural gas are too high, thus giving less support to other industries. For example: domestic natural gas could be converted into cheaper electricity to facilitate cheaper manufacturing and improve the quality of production, thus improving both the quantity and quality of Indonesian trade commodities. |



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| ORGANISATION | KEY POINTS |
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| AGRI (Indonesian Refined Sugar Association) | <ol style="list-style-type: none"> 1. Bilateral cooperation with Australia cannot only be in trade in goods (free trade agreement) that emphasises solutions to tariff and non-tariff barriers alone. The cooperation must involve economic cooperation. If it is only in trade in goods, it would likely harm the national economy. 2. Indonesia should position itself as a producer using Australian quality standards so that products can meet the needs of the Australian market in the world. Australian investments could push this position. 3. Health and quality standards of Indonesian products should increase with this bilateral cooperation through the transfer of knowledge and technology as well as increased research and development activities. 4. The negotiation process should run consistently by an unchanging and permanent team. 5. The government should involve businessmen with sufficient competence and understanding in their industries in framing the cooperation agreement. |
| AILKI (Association of Indonesian Luminer and Electrical Industry) | <ol style="list-style-type: none"> 1. Increasing Indonesian standards in developing energy conversion methods that are useful for light industry in Indonesia. 2. Lack of information to understand the character of the Australian market in light industry. 3. Lack of facilities as well as the form of Indonesian product promotion activities that can interact intensively with the Australian market. 4. Increasing the Indonesian product standards that integrate safety standards so as to improve product quality and competitiveness in the international market. 5. Increase Indonesia-Australia trade to reduce the cost of transportation that cannot compete with China-Australia trade. 6. Empower Indonesian students in Australia as marketing agents for Indonesian products. |
| AKAINDO (The Association of Indonesian Water Works Contractors) | <ol style="list-style-type: none"> 1. Trade with foreign countries is more dependent on large contractors that involve AKAINDO members. 2. Availability of raw materials relies on domestic production, while machinery is imported from Japan, Denmark and Germany. 3. Water installation technology refers to the knowledge from Europe. 4. In general, AKAINDO does not see a lot of benefits for its members in Indonesia-Australia cooperation. 5. Benefits of the IA-CEPA cooperation for AKAINDO are indirect, i.e. if there is infrastructure development investment and/or cooperation through grants or loans from Australia to Indonesia. |
| AKKINDO (Association of Indonesian Congress and Convention) | <ol style="list-style-type: none"> 1. In cooperation talks, it is important to pay attention to details to ensure equality of treatment and opportunity for both countries. 2. No difficulties have been experienced participating in exhibitions in Australia as well as those involved in exhibitions in Indonesia. 3. There are more challenges in the administration of visas which takes 5-10 working days, is costly and carries risk of cancellation due to visa being denied. In contrast, Australians do not need a visa to enter Indonesia. |



| ORGANISATION | KEY POINTS |
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| | <ol style="list-style-type: none"> Active participation of Indonesian government agencies is required to support businessmen in recognising the character of the Australian market and to market Indonesian goods and services to Australia. It is important to involve businessmen in the negotiation process so as to help the government understand the real national economic map. Allowing the establishment of Australian schools in Indonesia would be very advantageous to increase the capacity of human resources while providing a preferable alternative to sending children to school in Australia each year. |
| AKLI (The Association of Indonesian Electrical and Mechanical Contractors) | <ol style="list-style-type: none"> The government needs to review current regulations to avoid overlapping regulations that burden businessmen, and ensure the availability of simple, integrated and practical law. There needs to be equal standards of competency for electrical workers to Australia so as to facilitate movement of workers. This cannot be separated from efforts to support training and technical capacity building programs. Investment opportunities may encourage the transfer of knowledge and technology from Australia to Indonesia. |
| AP3 (Association of Indonesian Oil and Gas Drilling Pipe Producer) | <ol style="list-style-type: none"> Pipes industry does not see any immediate impact on the Indonesia-Australia cooperation. The hope is that the government can help the industry sector to reduce the costs of logistics that affects the production price competition, if it wants to improve the quality of products as well as open up opportunities for pipes exports. Indonesia-Australia cooperation is better focused on agriculture and animal husbandry. |
| APBI (BAN) (Tyre Manufactures Association) | <ol style="list-style-type: none"> Australia's trade relations with Commonwealth countries, such as Malaysia, Singapore and India, are stronger. In bilateral cooperation, Indonesia should be able to compete with the three countries in the Asian region. Issues that could be a concern in the cooperation include the transfer of knowledge in the field of mining, education, and trade of arts and culture (fashion, crafts, tourism). |
| APBI - ICMA (Indonesian Coal Mining Association) | <ol style="list-style-type: none"> Australian population is too small with around 25 million people (2015), so it is not an attractive market. ICMA sees Australia as a competitor, because it is the largest coal exporter in the world. Opportunities for cooperation with Australia include: <ol style="list-style-type: none"> Australian investment in Indonesia to improve coal energy consumption in the country. Export of building materials and furniture from Indonesia to Australia. The strengthening of tourism sector and tourist visa policies to attract senior/retirees from overseas (Australia) to stay longer in Indonesia. Indonesian government needs to improve the quality of premium Indonesian products to be absorbed by the Australian market with high purchasing power. The government's policy of protecting the conservation of nature so as to |



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| | <p>compete in the agricultural sector as well as the assurance of legal compliance of businessmen in the country.</p> |
| APHI (Association of Indonesian Forest Concession Holders) | <ol style="list-style-type: none"> 1. The government needs to strengthen its bargaining position with Australia to face political practices in foreign trade such as making allegations without basis. Costs involved in litigating such claims are prohibitive. 2. The international timber trade can be lucrative while also contributing to the rejuvenation of forests. 3. Australia requires tropical briad leaf wood and Indonesia needs needle leaf wood. This complementarity has the potential for mutually beneficial trade. |
| API (Indonesian Textile Industries Association) | <ol style="list-style-type: none"> 1. Protect domestic production in order to compete in the international market and be protected from the possibility of adverse trade policies. 2. Equal opportunities for both countries to market products in the partner country's market. 3. Create synergies in the trade and industrial policies of the various ministries which support businesses to produce and compete in international markets. 4. Government should provide financial infrastructure (capital) support for the textiles industry. 5. Increased efficiency of import processes to avoid double quarantine. Improve access to markets through cotton warehouse investment in Indonesia. 6. Exemption of import tariff charges and port access provisions for trade activities between the two countries. 7. Encourage export performance through improved product standards and certification of labour competencies in the textiles industry, with reference to ASEAN standards. |
| API - IMA (Indonesian Mining Association) | <ol style="list-style-type: none"> 1. In general, Australia is a competitor for Indonesia in the mining sector. 2. Form of cooperation that might provide benefits for Indonesia is directed to efforts to improve production quality through knowledge and technology transfer. 3. Investment opportunities exist for Australia to develop of mine smelters. 4. The government needs to ensure consistent legal certainty and firm law enforcement to be able to attract business investments. 5. The process of negotiation for cooperation must involve business actors in a discussion and assist the government to provide technical knowledge not only by depending on experts. 6. It is important for the government to understand sectors' priorities that will be the leading points of the negotiation. |
| APIKI (Indonesian Fish Cannery Association) | <ol style="list-style-type: none"> 1. Cooperation opportunities exist for Australia in the supply of industrial raw materials for fish canning or investments in processing facilities which would improve knowledge and technology in the fish canning industry. 2. The government must review policies in the fisheries sector related to limitations on raw material imports and prohibitions on loading at sea. |



| ORGANISATION | KEY POINTS |
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| APINDO Kaltim (The Employers Association of Indonesia – East Kalimantan Chapter) | <ol style="list-style-type: none"> Marketing difficulties are presented by Australia's small population and high health standards. However, these could present opportunities for improving product and health standards in Indonesian fish canning. |
| APINDO NTT (The Employers Association of Indonesia – East Nusa Tenggara Chapter) | <ol style="list-style-type: none"> Relations between Indonesia and Australia need to improve through recognition and appreciation of Indonesian culture being equal to and not lower than Australian culture. Australian investment opportunities exist for boosting various sectors in Kalimantan including cattle, coal mining, rubber, palm oil and fisheries which are currently not operating optimally. Foreign investment should prioritise long-term viability and positive social impacts. Human resources capacity building programs through Australian certified vocational training needs to be supported by the government so that it can grow and not be limited to companies only. Cooperation between Australia and Indonesia should not be centralised in Jakarta only, but also open direct access to other areas. Logistics access infrastructures are already available through international ports and air transport to the international airports has made it easier for businesses to interact directly. The partnership between employers and local governments has been good enough. Administration of visas to Australia has also been easy. Reliable trading commodities from East Kalimantan include wooden furniture, and tropical fruits such as dragon fruit. National economic policy of the Indonesian government has been very supportive, but the implementation should still be encouraged at the local level. |



| ORGANISATION | KEY POINTS |
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| | <ol style="list-style-type: none"> 5. Australia has two important concerns in its cooperation with Indonesia. First, Australian national security, considering Indonesia is the largest neighbour. Second, maintaining agricultural and cattle exports as Indonesia is the largest market for those products. 6. The negotiating team must have diplomatic skills, technical knowledge and a good understanding of social, cultural and political issues, and regulations. 7. A joint Government-Private sector body should be established in Australia to assist Indonesian businesses to immediately address any issues which may arise from conducting business in Australia. |
| APINDO Sumut (The Employers Association of Indonesia – North Sumatra Chapter) | <ol style="list-style-type: none"> 1. Opportunities exist for cooperation with Australia through investment in farming which allows knowledge transfer in the cattle breeding. Indonesia has the power in the supply of quality livestock feed. 2. Risks of Australia's trade with North Sumatra is the narcotics trade and illegal drugs which needs to be monitored more closely. 3. Improvement of bureaucracy and governance that is free of corruption and extortion of businesses is a top priority to attract investment and encourage the growth of local economic activities. 4. In practice, the cooperation must provide acknowledgement and appreciation towards product standards, culture and work ethics in Indonesia; and not act as a superior neighbour. 5. Improvement in the relationship between government and the private sector in Indonesia to assure foreign investors and stimulate national confidence. Currently, neither party fully trusts the other; and synergy has not been achieved. |
| APJII (Indonesian Internet Service Provider Association) | <ol style="list-style-type: none"> 1. Improvement of fibre optic networks throughout Australia will ease internet access that is currently dominated by the USA. 2. Bilateral cooperation conducted by association members is mostly through direct communication between business people in Indonesia and Australia. An initial communication offered a business opportunity in the form of grants and aid from the Victorian Government. 3. The greatest obstacle perceived by APJII is that the management of economic activities which is controlled by the government often eliminates opportunities for association members who are mostly SMEs. 4. Cooperatives are an alternative encouraged by the association to protect the interests of small businesses in Indonesia in competition with state-owned corporations. |
| APKI (Association of Indonesian Pulp and Paper) | <ol style="list-style-type: none"> 1. Equality in international trade law in bilateral cooperation. 2. The government must strengthen its position in facing accusations in international trade to be able to demand evidence from the accusing country. 3. Australia cannot make baseless accusations – a verification process must be conducted together to avoid high costs to businesses. |
| APKINDO (INDONESIAN WOOD PANEL) | <ol style="list-style-type: none"> 1. Indonesia is an exporter of plywood to Australia however the volume of trade is not great. Accurate trade statistics are not available but trade has decreased by about half in recent years. |



| ORGANISATION | KEY POINTS |
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| ASSOCIATION) | <ol style="list-style-type: none"> Indonesia's main competitors are China and Malaysia, however Indonesian business is confident its quality of product is far superior. Plywood is used in boat construction industry (mouldings, decks and interiors), decking, whiteboards, melamine, construction bracing, among others. Indonesia's SVLK (Sertifikat Verifikasi Legalitas Kayu) certified products are also far superior to competitors. Legality of products from competitor countries may be doubtful. While Australia has its own verification standard (ANS), SVLK certified wood should not really have any difficulties entering the Australian market. Fully aligning and mutually recognising standards and certification of legality would be a significant step in facilitating bilateral engagement. Indonesia's certification standard is high as it involves third party verification from EU parties. Australia should commit to implementing ILPA standards in the context of competition with China and Malaysia. Indonesian stakeholders are confident the legality of their products is far superior to competitors. Taxes, CSR to communities, and funding infrastructure such as roads, all push prices of Indonesian wood products up. Further costs for compliance with Australian standards make Indonesian products unable to compete. Duties on wood exports should be reduced from 15% to 5%. |
| APLINDO (Indonesian Foundry Industries Association) | <ol style="list-style-type: none"> Australia is a supplier of aluminium ore for the metals industry in Indonesia. Competency standards of metal casting were adopted from Australia. The government must improve local competency standards and product quality, particularly in the metals sector to be able to compete in international markets. The government must review energy and logistics policies to encourage the growth of the metals industry. |
| APMI (Indonesian Oil and Gas Drilling Contractor Association) | <ol style="list-style-type: none"> Drilling contracts are always done by tender which creates pressure to keep costs low. Indonesian drilling experts are therefore able to obtain better salaries abroad and Indonesia frequently loses expertise in the field to other countries, especially Middle Eastern countries. Social-political factors such as land disputes can be a barrier to activities in this sector, for example land owners in Sulawesi refused to allow access across disputed land which caused disruption to exploration. Effective cooperation with Australia will require open communications to provide information and identify opportunities in the industry. The chambers of commerce and business associations, or the two governments, should be 'match-makers' to match businesses with opportunities. This kind of information is important, difficult to obtain, expensive, and essential to business. Government policy must provide opportunities for small- and medium-sized businesses. Current government regulations restrict domestic companies from growing. Indonesian mining experts do not yet receive the recognition or salaries that reflect their expertise compared with Australian workers. Comparatively, salaries of Indonesian experts are around six times lower than their Australian |



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| | <p>counterparts with equal skill levels. The government has not sufficiently championed the cause of Indonesian mining expertise.</p> <p>6. Opportunities to develop human resources, training and skills is an area of great potential for cooperation with Australia. This could be in the form of investment coupled with technology transfer, or in Australian professional training and certification. This could also be done in conjunction with research and development activities.</p> |
| APPI (Indonesian Financial Services Association) | <p>1. Second tier financial services companies depend on existing primary trade activities between Indonesia and Australia where there is a need for financial services.</p> <p>2. Investment in financial services in Indonesia provides an opportunity for knowledge transfer and new job opportunities.</p> <p>3. The government should focus on strengthening cattle farming through IA-CEPA cooperation by managing existing land resources in east Indonesia.</p> <p>4. The role of the banking industry is crucial as an initiator for investment growth – especially in husbandry sector. Finance companies will also grow through the supporting transactions in, for example, animal feed, agricultural machinery and livestock management.</p> <p>5. Negotiations should not be political or limited to short term results for the current administration. The agreement should provide long term results. Thus, the involvement of businesses in negotiations is crucial.</p> <p>6. Understand the positive culture and law in Australia to be able to come up with quantifiable working targets for the bilateral cooperation.</p> |
| APPMI (Indonesian Fashion Designers Association) | <p>1. Indonesia's garment and fashion industry is already big for Indonesian fashion designers and businesses. However, there may be potential for trade with Australia in high quality fashion products.</p> <p>2. The government must emphasise continuity to create a sustainable bilateral cooperation, which is not affected by changes in policy.</p> <p>3. Implement Indonesian national standards in the fashion sector so that all SMEs refer to the same standard.</p> <p>4. The government must provide concrete support to encourage marketing and promotion of fashion products in international markets.</p> <p>5. Governmental administrative processes should be more effective to support product marketing activities.</p> |
| APRISINDO (Indonesian Footwear Manufacturing Association) | <p>1. Strengthen international recognition of Indonesian production, especially in the footwear manufacturing industry, or other industries, where products are re-sold using international brands.</p> <p>2. Indonesia's trade with Australia in the footwear sector is mostly in purchasing raw materials and knowledge transfer. As an export destination Australian market is considered to be small.</p> <p>3. Potential for Indonesian trade with Australia is dominantly for supply of raw materials, though it is possible for exports of premium products.</p> <p>4. The language style used by Indonesian government does not show a strong position of fighting for national interests.</p> |



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| | <ol style="list-style-type: none"> The government must identify the needs and priorities of economic trade based on domestic potential and strengths. Policies for the domestic industry must emphasise production efforts that result in added value from existing natural resources. It does not mean to trade the raw material, but encouraging finished goods production and exports. The government must encourage international promotional activities that improve recognition of Indonesian brands or production. |
| APSyFI (Indonesian Synthetic Fiber Maker Association) | <ol style="list-style-type: none"> Wool investments in Indonesia by incorporating technology transfer in wool spinning for Indonesian industry. An alternative cooperation of Fibre forward or Yarn forward that ensures the availability of cloth materials or fibre from Australia and Indonesia only. The government must provide promotional support in garments industry to Australia so that it will stimulate the growth of fibre industry in Indonesia. The government should conduct a review on the Indonesia and China cooperation as a comparison because China is a strong competitor in fibre industry sector. |
| APTINDO (Association of Indonesian Wheat Flour Producer) | <ol style="list-style-type: none"> Make an exception in the bilateral cooperation agreement related to flour commodity. Indonesian flour is quite competitive with China and Australia, while the big market is in Indonesia. Cooperation with Australia has a major risk towards Indonesian local agricultural production. |
| APTISI (Indonesian Private Higher Education Institution Association) | <ol style="list-style-type: none"> Universities in Indonesia must be able to cooperate with Australian universities to conduct research and development to facilitate outcomes needed in business. Cooperation with Australia in the education services sector will encourage greater innovation and creativity in establishing new business initiatives. |
| ARMI (Indonesian Mineral and Energy Reclamation Association) | <ol style="list-style-type: none"> Cooperation with Australia gives little benefit to the mining industry and its supporting industries. Dependency on the western world must be reduced. ARMI focuses on empowerment of local companies to conduct mineral and energy reclamation in Indonesia. Our competency and technology are able to compete with Australia. Cooperation opportunities with Australia could be through improvement of knowledge to process Coal Bed Methane (cbm) as an energy alternative that is still underdeveloped in Indonesia. Long term investment climate requires a public policy system that consistently provides benefit for national growth and does not change with each incoming government. Improvement in management systems in the oil and gas sector especially in government bureaucracy must be continually implemented and provide sustainable impacts. |



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| | 6. Involvement of businesses in the negotiation of bilateral cooperation agreements is crucial to provide technical and operational perspectives so they are not only dominated by political considerations. |
| ASEPHI (Association of Exporters and Producers of Indonesian Handicraft) | <ol style="list-style-type: none"> 1. Increased investment is needed to improve domestic product quality, and thus improve technological applications and Indonesian human resources capacity. 2. Australian investment is expected to open access to handicrafts market in Australia. Australian investors with production in Indonesia can market products in Australia. 3. Australian import regulations must accommodate Indonesian product standards to open opportunities for Indonesian products to enter the Australian market. 4. Costs and lengthy procedures for imports to Australia – especially for Indonesian products – must be addressed to increase price competitiveness of products in Australian consumer market. 5. Capacity improvement of trade attaché in economic sector to conduct economic diplomacy, product marketing and expo cooperation. 6. Government capacity improvement in protecting the interests of Indonesian businesses in facing accusations and various adverse trade politics. For example: accusation of dumping, brand forgery, policy to reject goods based on samples. 7. Strengthening a promotional mechanism that is more effective and efficient from all Indonesian trade commodities in foreign markets to reduce high costs for promotion. 8. Protection of Indonesian intellectual property and strengthening of international branding as a craft producer country through “Made in Indonesia” labelling for all products produced in Indonesia, despite the international brand packaging. |
| ASKINDO (Indonesia Cocoa Association) | <ol style="list-style-type: none"> 1. Exemption of import tariffs in Australia for chocolate products is quite appealing, although businesses are still not interested in entering Australian market. 2. Investment cooperation from Australia to Indonesia could push the cocoa processing industry which may be marketed in Australia and Europe. |
| ASPINDO (Indonesian Mining Services Association) | <ol style="list-style-type: none"> 1. Coal down streaming, increase in calories of energy raw materials for coal power plants is quite appealing, especially after the experience in the stalled Gunung Bayan project. 2. The sale of technology products to include commitment to conduct additional research according to Indonesian conditions to maximise the products, so as not to buy as is. The government should encourage companies to further partner with Indonesian companies. 3. The government shall prepare rules regarding the Downstreaming regulations so that the rules of coal mining are not equated with mineral mining. |
| ASRIM (The Association of Indonesian Softdrink Manufacturers) | <ol style="list-style-type: none"> 1. Opportunities to cooperate with Australia on materials supply must consider three parameters: supply sustainability, quality standard and price. The cooperation would benefit ASRIM’s sector should Australia be able to compete with sugar suppliers from Thailand and Vietnam, or machines from Japan and China. |



| ORGANISATION | KEY POINTS |
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| | <ol style="list-style-type: none"> 2. Government needs to review both raw and refined sugar import policy. 3. ASRIM's products will not be competitive if they are produced in Indonesia and exported to Australia. Producing products and expanding business in Australia is the most reasonable way for Indonesian companies to penetrate Australian market. It should be supported by pro-investment policies such as incentives, friendly investment regulation and machines procurement support. 4. Equal acknowledgement for ASRIM's products is needed by both Indonesia and Australia so that it could reduce production costs in case there is any adjustment in product's formula standard, in-product chemical materials usage or health standards. 5. Improving capacities, branding capability, R&D and mass-production innovation for Indonesian traditional beverages could be seen as opportunities for cooperation with Australia. |
| FOREK (Indonesian Rectors Forum) | <ol style="list-style-type: none"> 1. Cooperation with Indonesian higher institutions in Indonesia and Australia in research and development is needed in order to boost business innovation. 2. Research and development funding from Australia is needed for business incubator program development. |
| GABEL (Indonesian Electronic and Electrical Household Appliances Industrial Association) | <ol style="list-style-type: none"> 1. Indonesia competes with China in the production of electronic goods. Indonesia however has a natural advantage in that it is closer to Australia. There is great potential if products can be shipped directly to Australia, however currently the majority of exports go via Singapore and Hong Kong. 2. Wood/timber industry is a supporting industry to electronics. If the processes for wood certification – i.e. SVLK certification system – were aligned this would facilitate trade in electronics too. 3. Indonesian electronic products already comply with Standar Nasional Indonesia (SNI) if this were aligned with Australian standards this would also facilitate trade. 4. Import tariffs could be a point for negotiations, however it is unlikely to significantly influence trade. 5. The Indonesian Trade Promotion Centre (ITPC) needs to work harder in promoting Indonesian products in Australia. |
| GAPKI (Indonesian Palm Oil Producers Association) | <ol style="list-style-type: none"> 1. There is risk in bilateral cooperation with Australia in the farming sector as it would be difficult to compete with Australia, especially in the dairy sector. 2. Australia is unlikely to be seen as an interesting market for palm oil. Food labelling, however, might increase palm oil-based product consumption. 3. Government should persistently pay attention to the negotiation details, especially particular points that could benefit Indonesian business people's interests. 4. The bilateral cooperation should carefully be reviewed in order to prevent a greater trade deficit after the agreement takes effect. 5. One potential area of cooperation with Australia could be in building capacities of human resources and technology that could increase production in Indonesia. |



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| GAPKINDO (Indonesian Rubber Entrepreneurs Association) | <ol style="list-style-type: none"> 1. Indonesian rubber market is more comfortable with Middle East countries as they have significant demand gap compared to Australia. 2. Indonesian rubber quality is still competing with Thailand in terms of quality of rubber plantation processing and technology. 3. The cooperation negotiation should be committed to balanced transactions between the two countries. Indonesian local products' values could be bargaining points in negotiating with Australia. 4. Rubber-based goods trade with Australia will affect domestic rubber industry growth. |
| GAPMMI (Indonesian Food and Beverages Producers Association) | <ol style="list-style-type: none"> 1. Although the Australian market is viewed as small, the group sees opportunities in the cooperation to improve the quality of food and beverage products from Indonesia. Australia, though, is an attractive market for premium products, and can assist in R&D and capacity building. 2. Opportunity in cooperation with Australia could encourage improving production of premium-quality food and beverage that could sell well in Australia. 3. The government could increase its role in marketing, promotion and negotiate on investment permits in Australia. 4. Area of cooperation could include availability of base products that can be obtained economically in Australia. 5. Capacity building is another area of cooperation to improve branding, R&D or product innovation en-masse for Indonesia traditional beverages. |
| GIATPI (Indonesian Woven Poliolefin Manufacturer) | <ol style="list-style-type: none"> 1. Opportunities to grow in Australia as a market are seen as small. However, Australia's investment in building plastic processing factories (industry relocation) in Indonesia could be seen as a reasonable step for fulfilling Australian needs. 2. Indonesia's regulations and policies are less supportive for trade agreement implementation. Government needs to prepare comprehensive and supportive policies, especially related to Indonesian leading products. |
| GPEI (Indonesian Exporter Association) | <ol style="list-style-type: none"> 1. Inter-ministerial coordination and synergy are needed in Indonesia in order to end the debate of sectoral interests among the ministries. 2. A product standardisation development program in the manufacturing industry is needed in reference to Australian consumers. 3. Cooperation in products improvement process program through growth and harvest time acceleration in farming, stockbreeding and fishery. 4. Challenging Thailand's trade dominance by opening export opportunities in, for example, tropical fruits such as Ambonese bananas, ginger, coconut, coffee, cocoa, palm oil, and rubber, including footwear products. 5. Strengthening supervision strategy of import products circulation in domestic market by optimising the benefit of trade security instruments ruled by WTO (World Trade Organization) such as Anti-Dumping, Safeguards, and Anti-Subsidy. 6. Applying Rules of Origin (ROO) to avoid unfair trade practice such as illegal transshipment. |



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| | <ol style="list-style-type: none"> Export-Import should only be done in four ports that have been set: Tanjung Priok, Cikarang, Tanjung Perak, Tanjung Emas. Human resources capacity building through education and training, work competence certification, knowledge transfer in technology and product standards improvement, especially regarding the usage of chemical materials and health standards. Simultaneously monitoring and evaluating the benefit and loss of IA-CEPA for both countries in order to identify obstacles in the bilateral agreement, strategise solutions that should involve relevant associations in the industry. |
| GPMT (Indonesian Feed Millers Association) | <ol style="list-style-type: none"> In trying to serve the Australian market, producers often encounter Australia's strict health standards which hamper further attempts to bring products to market, such as in a shrimp production. Indonesian human capital and raw resources in producing the feed are adequate, but there should be a concerted attempt by both governments to ensure that the products can enter the Australian market. The question of data and information could be placed as the main issue to overcome information gap because of unhealthy political environment surrounding trade. The two governments need to jointly research and gather data to ensure transparency, and acceptance in both markets. The two nations need to jointly develop ways to improve and acknowledge product certification and health standards. The benefits from trade relations with Australia will be limited if it is only related to trade in goods. It should include technology and knowledge transfer. Indonesian government policy needs to be consistent, and should not cater merely to political expediency, without considering long-term effects. Australia needs to clearly declare its commitment to open its market to Indonesian products. |
| HKI (Indonesian Industrial Estates Association) | <ol style="list-style-type: none"> Australian businesses have not fully utilised Indonesia's industrial estates, hence the agreement should encourage such investment through building manufacturing facilities. The government needs to further improve infrastructure, and provide guidance to enhance industrial relations. The government needs to encourage Australia to invest in manufacturing to be located in the industrial estates that have been equipped with sufficient facilities. Consistency in the government's economic policy remains the biggest challenge in the growth of economy and trade, especially in the long run. Government's focus should be on provision of infrastructure and guidance on industrial relations. Indonesian government and business need to comply with prevailing regulations in order to strengthen their positions in international trade. |
| IA-BC (Indonesia-Australia Business Council) | <p>General comments:</p> <ol style="list-style-type: none"> Support the IA-BPG and endorse IA-CEPA, to realise the potential of trade and investment. Believe that Indonesia is embracing the global economy, albeit with some |



| ORGANISATION | KEY POINTS |
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| | <p>anxiety remain.</p> <ol style="list-style-type: none"> 3. A stronger voice in expressing a clear link between freer trade and economic growth. 4. The two governments need to improve trust and mutual respect <p>Regulations:</p> <ol style="list-style-type: none"> 1. Indonesian regulations are often complicated, overlapping and unclear and complex procedures which hamper trade. Hence, a greater transparency and consistency needed. 2. Calls for consultation process in policy and regulatory making. 3. Desire equal treatment of foreign and domestic capital and goods entered into the country. <p>Goods, Services, Trade and Investment:</p> <ol style="list-style-type: none"> 1. Focus on tourism with an emphasis on connectivity, and on education to capitalize complementarities, including possible joint ventures between private universities. 2. Investment should be open to all levels, including for SMEs. 3. Recognizing that skills should be tapped from a larger pool of talent, and that enterprise should be able to recruit from that larger pool. 4. The two countries have complementarities in skills. 5. Need for less government intervention in projects and long-term certainly. 6. Should go beyond export of goods, with the focus on the strengths and needs to be aligned for mutual benefit. <p>Trade agreements and IA-CEPA:</p> <ol style="list-style-type: none"> 1. Support 'binding and transparency' of negotiated barriers in the IA-CEPA. 2. Want a 'single undertaking', but recognise some sensitive issues could be parked for later, especially if they risk holding up the negotiation. 3. Governments should promote the benefits of AANZFTA, as well as acknowledge the 1993 Bilateral Investment Treaty. 4. When AANZFTA works, tariffs should not be an issue, but rather to align taxes and duties, including complying to 'reasonable tax' and ability to repatriate income and profits. 5. The business council would benefit from a clear development assistance program through the principle of Aid for Trade. 6. Commercial dispute must be resolved efficiently, with a clear path for legal recourse if necessary. |
| INApas (The Indonesian Olefin Aromatic & Plastic Industry Association) | <ol style="list-style-type: none"> 1. Indonesian HDPE (High Density Polyethylene) products have faced difficulties in entering Australia since before 2000, even though the products are some of the best in the world. As the only country that rejects the products, Australia has set unclear and incompatible standards, according to INAPLAST. 2. Maintain the 10% import duty Australian MFN (most favoured nation). 3. Indonesian domestic competitiveness should be improved. Local plastic should not be taxed. 4. Government should provide areas for infrastructure investment in Australia so there will not be a need for materials import and Australia could comfortably invest. 5. Government should facilitate association meetings and product exhibitions both |



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| | in Indonesia and Australia so that the two countries will have a better understanding of each other. For example the association meeting in ASEAN takes place at least twice a year and includes the ASEAN plastic awards. |
| INPEMIGAS (Association of Oil and Gas Support Industry) | <ol style="list-style-type: none"> 1. Cooperation with Australia can be initiated in arts and culture, education and national scale human resources capacity building. 2. Our excellence compared to Australia lies in oil exploration industry. |
| ISD (Indonesia Service Dialogue Council) | <ol style="list-style-type: none"> 1. Australia's acknowledgement of Indonesian services competence standards is needed. 2. Government needs to develop the cooperation strategy by emphasising leading sectors, developing economic zones located near Australia, and identifying supporting factors that could boost service industry competitiveness. <ol style="list-style-type: none"> a. IT professional services, farming, mining, stockbreeding and medical support manpower are potential leading sectors for cooperation with Australia. b. East Indonesia economic development that borders with Darwin. c. Equal capacity and quality improvement of vocational education across Indonesia. 3. Discussing cooperation in collaborative work competence certification so that it will leverage Indonesian manpower's opportunities to enter Australian market. 4. Business community involvement (especially services) in both countries' business community negotiation and discussion so that market understanding of both countries could be enriched. 5. Formulating detailed and specific service industry cooperation by emphasising Indonesia's areas of excellence. 6. Government needs to be proactive in proposing cooperation agreement so that it might leverage Indonesia's bargaining power. Processes for obtaining a visa for Australia should be made easier. 7. National Certification Agency needs to work hand in hand with other relevant governmental institutions to adjust competence standards to improve domestic business competitiveness. 8. Stronger inter-departmental cooperation and coordination are needed to set aside each ministry's ego, thus, the implementation of the cooperation would be smoother. 9. Knowledge transfer from Australia is still needed to improve local competence and competitiveness. Furthermore, a firm implementation of existing regulations is needed. |
| ISWA (Indonesian Sawmil & Wood Working Manufacturers Association) | <ol style="list-style-type: none"> 1. Wood processing sector's half-assembled and fully-assembled goods for wooden-based buildings could potentially be trade commodities for Australian market. 2. Wide leaf wood processing investment in Indonesia could be the answer for Australia's market needs since Indonesian national policy allows raw wood export. 3. Government needs to improve the supporting infrastructure, public services in |



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| | logistics affairs, R&D market, a better information and data management for international trade mapping potential, and people's plantation capacity improvement. |
| NAMPA (National Meat Pros Association) | <ol style="list-style-type: none"> 1. Strengthening Indonesian bargaining position in meat trade with Australia using suppliers like India and Brazil as comparisons. 2. Economic benefits for Indonesians can be gained through Australia's meat processing investment in Indonesia to boost Indonesian processed meat marketing, knowledge and technology transfer, supporting materials provision for stockbreeding improvement. |
| PERBANAS (Indonesian Banks Associations) | <ol style="list-style-type: none"> 1. Australia is still viewed as a small market, however if the value of bilateral trade increases this will also dramatically increase the interest of Indonesian banks to engage with Australia. 2. In general, Indonesian banks are not engaging the international market; so far limited to three of the biggest, state-owned banks. Meanwhile, three of Australia's largest banks – Commonwealth, ANZ and Westpac – have started operations in Indonesia. 3. Indonesian banks may engage more with Australia if the cooperation agreement is facilitative; so far local banks have focused on expanding their domestic operations. 4. The level of banking transactions in Australia (for Indonesian banks) is still very small. Growth in banking will depend on the value of trade – as reflected in the real sector. 5. There is a dire need for data and information on opportunities for trade with Australia from the perspective of the banking industry. 6. The banking sector may play a role in business match-making, which will then lead into increased international transactions with Australia. 7. Improvement is needed in the regulation and performance evaluation of the banks to ensure competitiveness in the ASEAN and global market. This is to increase the ability of domestic banking industry in the international market. |
| PPA Kosmetika (Indonesian Cosmetic Producers Association) | <ol style="list-style-type: none"> 1. Indonesian cosmetics trade has been focusing on East Asia countries such as Korea, Japan, China and Middle East. Australia is still considered a small market and Indonesia is still unsure if Australia's lanolin can be easily by domestic market. 2. Australian cosmetics market is moving towards green industry by using natural materials and that is seen as an opportunity by Indonesian herbal industry in fulfilling Australian cosmetics natural resources materials needs. 3. Australian import regulations are still a challenge for Indonesian products, as they set a standard that is too high, strict chemical material usage regulations and high tax. 4. Open and updated information on Australian market is needed to strengthen KADIN and governmental institutions' cooperation with other institutions overseas. 5. Indonesian government negotiation techniques should guarantee the balance of the agreement as it should not only follow the Australian side's terms and |



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| | <p>conditions.</p> <p>6. In order to optimise national economy growth, the government should ensure that foreign investments focus on the upstream sector and international market access is open to fulfill not only domestic needs but also international demand.</p> <p>7. Cosmetics products should apply GMP standards and be administered only under the Department of Industry.</p> |

LIST OF CONSULTED STAKEHOLDERS

| No. | ASSOCIATION | |
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| 1 | APJII | Indonesian Internet Service Provider Association |
| 2 | APTISI | Indonesian Private Higher Education Institutions Association |
| 3 | FOREK | Indonesian Rectors Forum |
| 4 | AEPI | Indonesian Leather Product Exporters Association |
| 5 | APPMI | Indonesian Fashion Designers and Entrepreneurs Association |
| 6 | APRISINDO | Indonesian Footwear Association |
| 7 | ASEPHI | Exporters and Producers of Indonesian Handicrafts Association |
| 8 | GIATPI | Indonesian Weaving Products Manufacturers Association |
| 9 | PPA-Kosmetika | Indonesian Cosmetic Producers Association |
| 10 | AAUI | Indonesian General Insurance Association |
| 11 | AKKINDO | Indonesia Congress & Convention Association |
| 12 | APPI | Indonesian Financial Services Association |
| 13 | ISD | Indonesia Services Dialogue |
| 14 | PERBANAS | Indonesian National Private Banks Association |
| 15 | ASRIM | Soft Drinks Industry Association |
| 16 | GAPMMI | Indonesian Food and Beverage Entrepreneurs Association |
| 17 | APINDO Kaltim | Indonesian Employers Association of East Kalimantan |
| 18 | APINDO Medan | Indonesian Employers Association of Medan (North Sumatra) |
| 19 | APINDO NTT | Indonesian Employers Association of East Nusa Tenggara |
| 20 | GPEI | Indonesian Exporters Association |
| 21 | HKI | Indonesian Industrial Estates Association |
| 22 | AILKI | Indonesian Luminary and Electrical Industry Association |
| 23 | AKAINDO | Indonesian Water Contractors Association |
| 24 | AKLI | Indonesian Electrical and Mechanical Contractors Association |
| 25 | APBI (BAN) | Indonesian Tyre Manufacturers Association |
| 26 | API | Indonesian Textile Association |
| 27 | APKI | Indonesian Pulp and Paper Association |
| 28 | APKINDO | Indonesian Wood Panel Producers Association |
| 29 | APLINDO | Metal Casting Industry Association |
| 30 | APSyFI | Indonesian Synthetic Fibre Makers Association |



| No. | ASSOCIATION | |
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| 31 | GB ELEKTRONIKA | Indonesian Electronic & Electrical Home Appliances Industries Association |
| 32 | INApLas | Indonesian Olefin and Plastic Industry Association |
| 33 | ISWA | Indonesian Sawmill and Wood Product Manufacturers Association |
| 34 | AGII | Indonesian Gas Industry Association |
| 35 | AP3 | Indonesian Oil and Gas Drilling Pipe Manufacturer Association |
| 36 | APBI-ICMA | Indonesian Coal Mining Association |
| 37 | API-IMA | Indonesian Mining Association |
| 38 | APMI | Indonesian Oil, Gas and Geothermal Drilling Contractors Association |
| 39 | ARMI | Indonesian Mineral and Energy Reclamation Association |
| 40 | ASPINDO | Indonesian Mining Services Association |
| 41 | INPEMIGAS | Oil and Gas Industrial Support Association |
| 42 | AEKI | Indonesian Coffee Exporters and Producers Association |
| 43 | AELI | Indonesian Pepper Exporters Association |
| 44 | AGI | Indonesian Sugar Association |
| 45 | AGRI | Indonesian Sugar Refiners Association |
| 46 | APHI | Indonesian Forest Concession Holders Association |
| 47 | APIKI | Indonesian Fish Canning Association |
| 48 | APTINDO | Indonesian Flour Mill Association |
| 49 | ASKINDO | Indonesian Cocoa Association |
| 50 | GAPKI | Indonesian Palm Oil Association |
| 51 | GAPKINDO | Indonesian Rubber Entrepreneurs Association |
| 52 | GP. JAMU | Herbs and Traditional Pharmaceutical Producers Association |
| 53 | GPMT | Indonesian Feed Millers Association |
| 54 | NAMPA | National Meat Processors Association |
| 55 | IA-BC | Indonesia-Australia Business Council |



Annex 5 AUSTRALIAN STAKEHOLDER CONSULTATIONS

SUMMARY OF SUBMISSIONS, PRESENTATIONS AND REPORTS

| ORGANISATION | KEY POINTS |
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| Advisian – Adam Aspinall “New Energy Future Opportunities for the Region” | <ol style="list-style-type: none"> 1. More than one-fifth of Indonesia’s population lacks access to electricity. 2. Any attempt at economic and social development would be stunted, hence the urgency in bringing electricity to all. 3. As to the electricity sector itself, the next fifteen years will mark the rise of: <ul style="list-style-type: none"> • Exponential growth in solar generation. • Smart Grids and Big Data management. • Electric vehicles and electrical storage. • Autonomous/Community Mini Grid power. • HVDC transmission between generation sources and load centres. 4. Electric Vehicles (EV), which have real advantages over existing petrol engines, will dominate roads in the near future. 5. Electricity storage and solar energy will allow generation in small areas, and will open access for underdeveloped countries or communities to ‘leap-frog’ fossil-fuel generation. 6. Large-scale power provision in the near future will be driven by expansion of Renewable Energy sourcing. 7. For the renewables, especially solar and wind, Australia has great potential to harness and supply electricity to the region. |
| AFS Intercultural Program Australia in IA-CEPA Sydney Forum for IA-BPG | <ol style="list-style-type: none"> 1. Obtaining a multiple entry business visa or a limited stay permit (KITAS) for Indonesia is still a complex process. Many Australian business people revert to a tourist visa when they should be travelling on a business visa and this impacts the reporting and classification of travel to Indonesia by Australians. 2. Encourage bilateral cultural projects, particularly in the arts, to develop cross-cultural links and understanding. 3. Develop greater awareness about Indonesia (including Indonesian language studies) in Australian education systems (schools and universities). |
| AIBC “Shaping the IA-CEPA: Realising stakeholder aspirations” | <p>AIBC report summarised views of stakeholders from business, government and not-for-profit sector on IA-CEPA. Key points included:</p> <ol style="list-style-type: none"> 1. Strong complementarities exist between the two economies creating lucrative opportunities for partnership to enhance economies in ways that either nation cannot do on its own. 2. Qualities and provisions identified for the IA-CEPA are that it should be: 3. A 21st Century agreement beyond last generation trade agreements and be very forward-looking to 21st Century issues. 4. High quality and comprehensive, covering trade in goods and services, investment, movement of people and economic cooperation. As well as: electronic commerce; competition policy; government procurement; |



| ORGANISATION | KEY POINTS |
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| | <p>intellectual property rights; environment; labour; institutional and framework provisions (e.g., transparency; dispute settlement procedures; institutional arrangements). Any other issues which take into account new and emerging issues relevant to business realities.</p> <p>5. Agreement should also cover: Economic Cooperation. More advanced commitments than the ASEAN-Australia New Zealand Free Trade Agreement (AANZFTA), including on goods. Services and digital economy as key areas for trade cooperation. Other priority areas include: infrastructure planning, financing and delivery; education; labour; finance; agriculture; food processing; innovation; tourism; and health and aged care. Also, the transfer and use of high technology in traditional sectors. The high priority that President Joko Widodo has placed on infrastructure and marine connectivity is also noted.</p> <p>6. IA-CEPA should also be, or include: Balanced, with mutual benefits; Build on existing agreements; Opportunities-driven and innovative; Dynamic and flexible; Development orientation and economic cooperation; Early outcomes; Strong stakeholder engagement and input; Cross-cutting issues and mechanisms; Global value chains; Exchange of knowledge and technology; Tapping comparative advantages; Economic transformation; Economic cooperation.</p> <p>7. AIBC recommends identifying areas where early outcomes can be achieved to build momentum and recognition for IA-CEPA in the following areas: Infrastructure; Red meat and cattle; Skills; VET sector cooperation; Nurse training; Proposed MOU on skills; Movement of people; Seasonal and other workers to Australia; Australian professionals in Indonesia; Internships; Financial services; Professional services; Agriculture; Food processing; Food and drug standards; Design; Hospitality and tourism services ; Education; Healthcare; Resources and energy; Mining equipment, technology and services. The submission added four sectoral areas, to the eight identified in the 2012 IA-BPG report:</p> <ul style="list-style-type: none"> a. Agriculture and agribusiness b. Mining and energy c. Manufacturing d. Financial services e. Professional and business services f. Education and research g. Health services h. Green economy <p>To the list of sectors above should be added:</p> <ul style="list-style-type: none"> a. Infrastructure development b. Digital economy and e-commerce c. Skills and labour exchange d. Tourism and hospitality |
| AIBC IA-CEPA Forum – Adelaide | <p>1. Amendments/abolishment of negative list was a sentiment strongly expressed by participants. The negative list restricts FDI in SMEs under a certain cap level, which is not conducive to enterprise growth and the broader ideal of entrepreneurial investment and youth enterprise.</p> |



| ORGANISATION | KEY POINTS |
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| | <ol style="list-style-type: none"> Indonesia currently does not have a student visa category. There is a cost impost for foreign students wishing to study in Indonesia. Allowing access for Australian universities to the Indonesian market in-country. Such opening up would lead to improvements in quality of Indonesian tertiary education and education providers. Require surety of law and investment agreements and its application in the provinces – this is a major threat to FDI. Suggestions to elevate investment frameworks (regional MOUs for example) as the principal mechanism guiding two-way investment – take it away from regulation (law). Richer exchange of ideas and cultures by fostering ‘out-of-the-cities’ exchanges, example given of student exchanges in rural Victoria. |
| AIBC IA-CEPA Forum – Brisbane | <ol style="list-style-type: none"> Concern about Indonesia’s protectionist policies on professional market which other Asian markets do not seem to have. For instance, the restriction for Australian firm to use their own names in Indonesia; restriction for foreign professional such as lawyers, engineering, medical doctor, etc. to up-skill the Indonesian counterparts. In the education sector, there is a challenge in conveying the message that up-skilling is simply not just formal training but also exposure to people and ideas. It is much harder for working holiday visa holders to study in Australia due to extremely stringent English requirements. Currently the requirement is for a 5.5 English proficiency score, however for a 3-6 month educational program for a Certificate 4 in Aged Care for example, this seems inappropriate especially as the student will be returning to work in the very short-term to work in a solely Indonesian environment. It is understood that Australians over the age of 60 or 65 cannot apply for a KITAS visa which has been problematic for various Australian professionals within that age group who wish to do business in the Indonesian market. The absence of IA-BPG briefings/updates for businesses that will provide them with at least a framework for ideas/feedback, especially prior to these stakeholder consultations. |
| AIBC IA-CEPA Forum – Melbourne | <ol style="list-style-type: none"> Business should consider what it doesn’t currently have: Services: need to be comprehensive, building on the existing plurilateral and multilateral commitments. Indonesia has made an offer on 65 of 165 sectors, but this needs to be expanded; Investment: needs to build on the AANZFTA investment chapter, recognising that it has no operative schedules. Principles to be reflected: national treatment, most favoured nation, equality, transparency. The need to consider Australia’s and Indonesia’s respective relationships with others. There are opportunities where Australia can send raw materials to Indonesia for value-adding and then send them onto north Asia (China, Japan). This will be easier if Australians have confidence that exports to Indonesia are unhindered. The IA-CEPA should consider that human capital development is a priority. |



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| AIBC IA-CEPA Forum – Perth | <ol style="list-style-type: none"> 1. There are several barriers for Australian engagement in education and training sector. For instance, restrictions on foreign education and training organisations operating in Indonesia; minimum capital requirements for a new company lifted from approx. AU\$50k to AU\$200k, which is at odds with the capital-light nature of services businesses; Severe restrictions on foreign workers in Indonesia, including people with critical skills for education and training cooperation; poor levels of competence in English language amongst Indonesians and Indonesian language amongst Australians; low levels of trust between Indonesian and Australian businesses. 2. There was much discussion about the lack of understanding and trust between Indonesian and Australian business, and between business and governments. There are also internal issues of trust in Indonesia. 3. Need liberalisation of regulation between Australia and Indonesia to enable cooperation and capacity-building in Indonesian education and training. BPG should examine other agreements that Indonesia is party to (e.g., AEC) for precedents. 4. The IA-CEPA should include an initiative for an ‘accelerated approach’ to higher education partnerships. 5. Indonesia and Australia could jointly develop a ‘Food Plan 2030’ to underpin Indonesian food security, two way investment and trade, and capacity-building as part of a systems approach. 6. Ensure that creative industries and sport are featured in the IA-CEPA. 7. IA-CEPA needs to take a broader view of security, to include mechanisms for anti-corruption, secure logistics chains, improve diet and health, and build mutual understanding and trust. 8. Both governments need to promote doing business in the other country and provide easily accessible guidance. 9. The IA-CEPA should include mechanisms to facilitate Australian investment in Indonesia’s Special Economic Zones. |
| Air Asia X – Benjamin Ismail “Connecting the Region” | <ol style="list-style-type: none"> 1. Australia is a core market which shows great potential for future growth connecting it to other core markets in East and South Asia. 2. The airline industry in Asia-Pacific is poised for further growth as liberalisation and bilateral air service agreements increases, especially in ASEAN, removing the monopolistic barriers and stimulating regional trade, tourism and job opportunities. 3. Increasing visa waivers and easing regulations: 4. Australia eased visa rules for China and India. 5. Malaysia introduced visa waivers for China and e-visa for India. 6. Indonesia introduced visa-free entry to over one hundred countries, including Australia. 7. We intend to bridge the gap in the region, enabling easy access for business, education and holiday travelers by: <ul style="list-style-type: none"> • Introducing new destination pairings and unique routes - Commenced New Delhi – Auckland in early 2016 to enable connections for Australia, New Zealand, and India. |



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| | <ul style="list-style-type: none"> • Increase flight frequency on existing high traffic routes, i.e. Australia and China. • Explore opportunities in underserved markets to stimulate new market demand, i.e. Iran, China (secondary markets). • Intensified marketing campaigns to spur travel demand in both Asia and Australia region. |
| ANZ – Glen Maguire (Chief Economist, Asia-Pacific) “Economic Opportunities and Challenges in the Region” | <ol style="list-style-type: none"> 1. ASEAN’s economic fundamentals are steady. Investment will gain traction in coming years, with possibility of production platforms migrating from East Asia to SE Asia. One driver for this migration south is that Mekong region has cheapest labour costs in Asia and is rapidly urbanising. 2. For Australia, this upward trend in its northern neighbours provides rich opportunities, in export, import and investment. Agriculture demand will grow significantly mostly due to urbanisation and a growing middle-class. Hard commodities growth will be due to infrastructure construction in the region. Services also show great potential, including growing demand for education. 3. The demographic dynamics in ASEAN will drive urbanisation which in turn will push the economy further. |
| ANZ – Rob Lomdahl, Leonie Lethbridge “ANZ in Indonesia and Future of Banking” | <ol style="list-style-type: none"> 1. ANZ in Indonesia: <ul style="list-style-type: none"> • ANZ has a 99% shareholding in PT Bank ANZ Indonesia and is the largest Australian investor in Indonesia’s financial services sector, with an investment of over AUD1billion. • The ANZ network in Indonesia comprises 28 branches and 53 ATMs in 11 cities across Indonesia, servicing Retail & Wealth, Consumer Finance, Private Bank, Institutional and Commercial customers. • ANZ Indonesia has ~1,100 permanent employees. 2. Data On-shoring: <ul style="list-style-type: none"> • Foreign banks in Indonesia have been extremely concerned about proposed regulations requiring data on-shoring, which would require extremely large investments by offshore banks. • The original 2012 proposal from the Indonesian Ministry of Telecommunications mandated that all public service companies (including banks) must process their transactions and data in onshore data centres. • However, Indonesia’s Information, Communication and Technology Minister recently stated that regulations on e-commerce industry would be delayed until 2019 or 2020. It is anticipated that industries such as airlines and financial services may be exempted from the requirements. However this uncertainty remains a concern for the financial services industry. 3. Equity levels: <ul style="list-style-type: none"> • The Indonesian Banking Regulator (OJK) is under pressure to reduce foreign ownership in the financial sector. • The Indonesian Parliament is considering a new law to make the 40% foreign ownership cap retrospective. The cap had previously only |



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| | <p>applied after 2012. The Indonesian Parliament and the Financial Sector Stability Coordination Forum would retain the power to allow foreign ownership of greater than 40%.</p> <ul style="list-style-type: none"> The law would impact ANZ's investment in ANZ Indonesia. <p>4. Financial services visas:</p> <ul style="list-style-type: none"> The OJK takes a restrictive view on foreign staff in the banking sector. It does not follow the Manpower Ministry's rules of one foreign staff member per 10 local staff. This significantly limits the transfer of skills to Indonesian staff, reduces competition and constrains activities of foreign banks. <p>5. Investment in Australia:</p> <ul style="list-style-type: none"> ANZ publicly advocated for Indonesian investment in Australia's banking sector, which underlines Australia's status as one of the world's most open banking markets. An Indonesian bank (one of the big four State Banks will open a branch in Melbourne very soon). Investment across multiple sectors shows potential where there could be Joint Competitive Advantage and where Australia and Indonesia could combine to tackle 3rd markets (per 'Succeeding Together' report). |
| Australian Sugar Industry Alliance: "A Submission to IA-BPG for IA-CEPA" | <ol style="list-style-type: none"> Despite being a major supplier of raw sugar to Indonesia in 2014 and 2015 (almost a third of all imports), the ASEAN Trade in Goods Agreement (ATIGA) will favour Thai sugar instead, due to tariff differentials with Australian sugar. The additional cost to Indonesian refiners of only being able to source Thai sugar is approximately USD 20/per tonne, approximately USD60 million annually taking account of Indonesia's import needs. A reduction in the tariff that applies to Australian imports of raw sugar to a level equivalent to that applied to Thailand would ensure Indonesian refiners would continue to be able to source raw sugar imports from Australia and maintain access to a competitive high quality alternative source of supply. There will be no adverse effect on tariff revenue for Indonesia if there is a reduction in the tariff applied to Australian imports. Without a reduction, there will be very limited imports of raw sugar from Australia. |
| BlueScope | <p>BlueScope's high-level IA-CEPA recommendations:</p> <ol style="list-style-type: none"> Market Access is largely not a game changer. As there is currently no reciprocity in tariffs over steel products between Indonesia and Australia, IA-CEPA is an opportunity to achieve balance in market access. BlueScope's in-market experience, however, due to numerous FTAs, market access is largely not an inhibitor of trade. But other barriers exist that increase the cost and complexity of doing business. As noted below, IACEPA should provide certainty that Non-Tariff Barriers (NTBs), Technical Barriers to Trade (TBTs) and forms of murky protectionism will not increase from tariff reduction or elimination. In terms of impact to BlueScope's business, effective redress of NTMs and TBTs would be more advantageous to stimulating trade and investment than a possible multi-year phase down of tariffs of steel exports from Australia to Indonesia. |



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| | <ol style="list-style-type: none"> 2. Mechanisms to address trade-distorting behaviour (both at-the-border and behind the-border) should be addressed, including mechanisms that increase the cost and complexity of doing business, predominately relating to NTBs and TBTs, and preferential treatment awarded to SOEs. In Indonesia, BlueScope has observed a reduction in the effectiveness of SNI (the Indonesian national standards body) in verification and implementation of quality standards. Also, as tariffs have reduced in Indonesia, emerging in their place has been lengthier import processes, greater complexity and higher costs for customs clearance, increased port handling costs, and increased port congestion with higher risks of demurrage costs. Often these are introduced to support the interests of locally-owned steel companies. 3. Rules of Origin advances that seek simplification must have a strong foundation in integrity and transparency. They must prevent country-hopping or minimal transformation, ensuring third party countries cannot obtain preferential tariff rates or avoid trade remedies. 4. Foreign investors/owned firms should have an equal footing in the establishment of standards with harmonization or mutual recognition of new standards a preference, particularly relating to elevating quality and environmental credentials (SOEs should not be the only or key influences in this regard). Introduction of new standards outside of a harmonized process should go through the WTO TBT notification process. Existing standards should not be subject to a simplistic view of harmonization without considering implications to domestic industries, such as an impact assessment of adoption by SMEs, maintenance of environmental and quality credentials of products, etc. Also, the divergence of newly created standards can result in preference to local companies in government procurement opportunities, which will only distort international trade and investment flows. 5. There must be full retention of rights and obligations under the WTO Agreement on Trade Remedies, specifically relating to the right to address unfairly traded steel - removal of this is akin to abolishing international competition policy, thereby removing the ability to addresses unfair trade practices (which are on the rise in the global steel industry and resulting in increasing forms of murky protectionism). 6. Technical Economic Cooperation provisions should focus liberalising current bottlenecks in trade and investment. There is a clear opportunity for Australia, to conduct capacity building and technical transfer of best practice to government officials in Indonesia in the correct use and application of WTO Agreements. This is particularly the case for the Agreement on Trade Remedies, where currently the incorrect use by government has commercial and reputational risks for foreign-owned firms such as BlueScope. |
| Chamber of Commerce Northern Territory: "Significance of Indonesian Market to the NT's Current and Future Economy" | <ol style="list-style-type: none"> 1. That the Darwin-based Indonesian Customs Pre-Inspection Service be re-opened and approved to service Australian exports (via Darwin) to Eastern Indonesia – including those that currently need to be transhipped via Java or Singapore. 2. That the IA-CEPA give due recognition to the importance of developing Eastern Indonesia and acknowledge the special relationship that the |



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| | <p>Northern Territory has with provinces such as East Kalimantan (Balikpapan) and Maluku (Saumlaki).</p> <p>3. Provision of government programs to support Australian business people and public servants to learn Bahasa – and vice-a-versa for those in Indonesia to learn English.</p> |
| Charles Sturt University Centre for Customs and Excise Studies: “Establishment of a Trade Facilitation Centre of Excellence in Jakarta, Indonesia” | <p>1. Establish a Trade Facilitation Centre of Excellence, based in Jakarta, to address the various impediments to trade, with solutions being based on internationally recognised principles, including those contained in the WTO Agreement on Trade Facilitation. While the initial focus will be bilateral trade between Australia and Indonesia, the opportunity exists to expand this concept and for the facility to become the regional centre of excellence for SEA and/or ASEAN.</p> |
| Christian Teo and Partners: “New Contract Restrictions for PMA IUJK Companies – Foreign Investment Disconnect” | <p>1. The introduction of the New Contract Restrictions are unfair to PMA IUJK Companies, which have made large investments in Indonesia during both good and bad economic times.</p> <p>2. These restrictions will protect local construction companies by giving them a monopoly over small and medium size contracts in order to protect them during bad economic times.</p> <p>This decision seems somewhat inconsistent with the current government agenda to boost infrastructure development and to increase oil and gas production.</p> |
| Cristian Teo and Partners: ESDM New Draft Mining Law – A Very Mixed Bag | <p>1. The possible exclusion of foreign owned mining business service providers from the local mining industry and the increased restrictions on employing expatriates in the local mining industry are likely to be strenuously resisted by foreign investors.</p> <p>2. There will surely be further opposition, from both foreign and domestic investors in the local mining industry, to the creation of Investigators with police-like powers and the ability to shut down a mining project in the event of suspected criminal activity.</p> <p>3. The April Draft Mining Law is notable, in a positive way, for the extent to which it shows a rethink, at ESDM, of the appropriate role for BUMNs to play in the future development of the local mining industry. ESDM has clearly decided, at this stage, not to give BUMNs a dominant role in the local mining industry although BUMNs will enjoy certain special rights.</p> <p>4. This will also be welcomed by many metal mineral producers which are presently unable to export their unrefined mineral products.</p> |
| Darwin Port – Mike Hughes “Asia – Australia’s Trading Partner” | <p>1. Darwin is positioned to serve middle Australia from northern part of the country down to Melbourne region, encompassing resource-rich areas and manufacturing hubs. From Darwin, Australia can reach further to the North and West. The expanded port itself serves as a new development center for the city and the Northern Territory.</p> |
| Euromonitor | <p>1. Real GDP should grow by 5.0% in 2016 after gains of 4.7% in 2015. A rebound in public investment should help to shore up the economy. Additional support will come from gains in private consumption. Weaknesses</p> |



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| | <p>in commodity prices constrain exports. More aggressive efforts to promote private investment are needed. The economy grew by 5.0% in the fourth quarter of 2015.</p> <ol style="list-style-type: none"> 2. To regain some momentum, part of the latest stimulus program includes measures to fast-track big investments. In 2016, the government plans a state-led drive to build ports, roads and railways across the country. Infrastructure spending will increase by almost 8% over 2015. 3. Unemployment was 6.0% in 2015 and it will fall to 5.9% in 2016. An estimated 70% of workers hold jobs in the informal sector where wages and job security are low. 4. Annual growth of real GDP is expected to rise gradually to about 5.3% in the medium term. |
| Export Council of Australia: "Shaping the Economic Relationship between Australia and Indonesia" | <ol style="list-style-type: none"> 1. The Rules of Origin requirements should be liberalised as much as possible, while adopting a consistent approach to technical issues to help reduce the level of complexity and regulation. 2. A limited Investor-State Dispute Settlement (ISDS) provision may need to be included as a means to secure consent to the Agreement. A properly drafted ISDS (which excluded Australia and Indonesia's legitimate national interests) could advance the interests of both countries. 3. An Alternative Dispute Resolution (ADR) mechanism should be included in IA-CEPA as a means to facilitate simplified and low-cost dispute resolution for SMEs. 4. As Australian businesses, especially SMEs, do not have a practical understanding of the benefits of FTAs and how to go about accessing them, it will be important to assist with: <ul style="list-style-type: none"> o Raising awareness about the Indonesia-Australia CEPA within the SME community particularly; o Providing, or directing businesses to, clear and concise information on how the FTA can be utilised; o Promoting 'SME friendly' information on the benefits of the FTA, specific to key industry sectors; o Ensuring that sufficient emphasis is also placed on encouraging companies to seek information and advice that will help them to mitigate risk and operate profitably in the market. |
| Grain Growers: "A Grains Industry Strategic Initiative for Indonesia" | <ol style="list-style-type: none"> 1. Propose Indonesia-Australia Centre of Excellence for the grains industry within an Indonesian university that would: a) teach baking and noodle making to Australian industrial standards, b) conduct courses in wheat milling, and c) courses in grain storing and testing. |
| Indonesia-Australia Partnership on Food Security in the Red Meat and Cattle Sector | <ol style="list-style-type: none"> 1. The Indonesia-Australia Partnership on Food Security in the Red Meat and Cattle Sector (the 'Partnership') provides a bilateral mechanism to move this cooperation forward – bringing together government and relevant stakeholders associated with the red meat and cattle sector. 2. Originally conceived by our industry and now facilitated by the Australian Department of Agriculture and Water Resources (DAWR), the purpose of the Partnership is to synergise Australian and Indonesian strengths and |



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| | <p>potentials in order to develop the Indonesian cattle sector and improve prospects for long term investment and trade between Indonesia and Australia.</p> <p>3. The partnership has endorsed AU\$12.175 million in funding (provided by DAWR) for cooperation activities in 2016, with a focus on cattle breeding, meat processing, logistics, and skills development.</p> |
| Lowy Institute | <p>1. Difficult economic circumstances have historically led Indonesian leaders to enact economic reforms, leading some to argue that bad times have resulted in good policy. But as Indonesian growth has slowed over the past year, the government has departed from this pattern, and is instead choosing protectionism as an alternative. Narratives from the current administration such as a strong rupiah, anti-foreign sentiments, etc have all combined to push Indonesia toward protectionism.</p> <p>2. Indonesia's recent decision to cut the quota for live cattle imports from Australia has been seen by some as yet another example of how the relationship between Australia and Indonesia is ebbing ever lower. The truth is, however, the decision has less to do with how Indonesia sees Australia than it does with the changing character of trade policy in Indonesia.</p> <p>3. Indonesia's attitude to trade and investment in recent years has been characterised as "sitting on the fence." On the one hand, the country is an active member in the G20, APEC, and ASEAN. Such participation has in the past encouraged domestic policy reforms that ensured Indonesia benefited from greater economic integration with other countries.</p> <p>4. Economists have often characterised economic reform in Indonesia as a pattern that follows 'Sadli's Law', where bad times lead to good policies. Certainly it has been like that in the past. Plunging oil revenue in the 1980s pushed the government to implement broad-based economic reforms that boosted industrial development in Indonesia. In the late 1990s, Indonesia introduced another package of economic reforms as part of an IMF program to make its way out of the Asian financial crisis.</p> |
| Meat and Livestock Australia | <p>1. CEPA must be comprehensive and include trade liberalisation for all red meat and livestock products (under Chapters 1, 2, 5, 15, 16 and 41 of the Harmonized Tariff Schedule).</p> <p>2. Reaffirmation of zero import tariffs, tariff elimination secured under AANZFTA and the elimination of those import tariffs not addressed under AANZFTA.</p> <p>3. Securing unrestricted access to the Indonesian market, by removing these regulatory measures, securing transparency of sanitary standards and ensuring other trade distorting provisions are not introduced for Australian livestock, beef, sheep meat, goat meat and offal, is a priority in order to bring certainty and continuity to trade with Indonesia.</p> <p>4. The ongoing enhancement of dialogue between Australian and Indonesian authorities to avoid future import or food regulations becoming non-tariff barriers will be of mutual benefit. Closer dialogue should also be used to avoid the uncertainty often associated with specific import requirements and, at times, the inconsistency with their application throughout Indonesia.</p> |



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| | <ol style="list-style-type: none"> Indonesia stipulates that Australian abattoirs/meat processing operations seeking to export to the market must be approved via a state-based Halal certification protocol. |
| Minor Hotels – Mike Anderson “The Changing Face of the Hospitality Industry” | <ol style="list-style-type: none"> The Minor group has 138 properties in 23 countries that boast more than 17 thousand rooms. The group expands through developing the “serviced apartment” model, aside from the traditional “hotel” model. Visitation has also been growing rapidly, including international visitors. In the near future, this increase from China and other Asian nations will continue. This new-breed of visitors is of the digital generation, hence the need for online presence of hotels, and providing connectivity in hotel properties. |
| Minter Ellison | <ol style="list-style-type: none"> There seems to be a general view that work in raising professional standards would be beneficial. Whether in law or elsewhere there is a sense that ethical standards and the recognition and standing of professional bodies (in terms of bilateral interaction) might be strengthened. A strong view exists that in terms of bilateral trade instruments (FTA, BIT or otherwise) clear policy settings and clarity of dispute resolution mechanisms ought be the expectation. In that sense Australia (post 2 July 2016) needs to clarify its own thinking. Greater engagement in the higher education space is viewed by Universities as an area permitting easy gains. An increase in Indonesian language training if accelerated would be seen to have value. Relative Australian student participation rates may have gone backwards in this area. Cross border competition rules and e-commerce regulations have been seen as priorities and capable of gains. In the context of people and investment flows the need for possible improved flows is regularly mentioned. Subject to community and political sensitivities, there is hope that cross border investment or trade with a northern Australia focus might underpin some early mutually beneficial gains for both nations. |
| National Farmers Federation | <ol style="list-style-type: none"> Establish an Indonesia-Australia Agribusiness Leaders Network, with the goals of: <ol style="list-style-type: none"> creating closer working relationships within the agribusiness sector, establishing effective and complimentary communication, and allowing for easier identification and development of business opportunities. |
| Perth USAsia Centre “The changing Architecture of the Asia-Pacific Trading System: Implications for IA-CEPA” | <ul style="list-style-type: none"> Since IA-CEPA negotiations began in 2010, the regional and national context for Australian and Indonesian trade policy has changed dramatically. A past focus on bilateral FTAs has since given way to new strategies to ‘multilateralise’ the Asia-Pacific trade architecture. The Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) are currently the two leading approaches. |



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| | <ul style="list-style-type: none"> • There is now a wider range of institutional vehicles via which aspirations to deepen the Australia-Indonesia economic relationship can be realized • Australia has also completed a much more extensive set of bilateral FTAs. These can provide a template for how to implement several of the 'WTO-Plus' issues on the IA-CEPA agenda. • The IA-BPG should take this new context into account in setting its IA-CEPA priorities ahead of the next round of (relaunched) negotiations, scheduled for August 2016. <p>Recommendations:</p> <ol style="list-style-type: none"> 1. IA-BPG should review its 2012 'consolidated recommendations' in light of the emergence of new multilateral vehicles for Australia-Indonesia economic cooperation. <ol style="list-style-type: none"> a. Attention should be paid as to which issues are to remain IA-CEPA priorities, and which might be best addressed via alternate mechanisms. b. RCEP, the AANZFTA consultation mechanisms, and the TPP all provide new institutional vehicles through which certain aspirations may be better advanced. 2. IA-BPG should review its approach toward WTO-Plus areas in light of Australia's more recent FTAs. <ol style="list-style-type: none"> a. These agreements provide templates on which IA-CEPA negotiations can build and innovate. b. AANZFTA and the TPP provide instructive models for issues of regional impact; whereas ChAFTA and MAFTA may be more suited to matters with specific developing-country concerns. |
| Peter Cook (Submission to AIBC) | <ol style="list-style-type: none"> 1. Lack of transparency in relation to import/export regulations is a significant barrier for small businesses which simply cannot afford the costs of researching and navigating complex regulations. |
| Standards Australia: "In support of IA-CEPA Standards Harmonisation Action Plan" | <ol style="list-style-type: none"> 1. Standards Australia has been cooperating with Indonesia's National Standards Agency (BSN) on International standards matters, and has assisted BSN through capacity building, particularly to promote Good Standardisation Practice. 2. The implementation of a specific IA-CEPA Standards Harmonisation Action Plan will unlock significant benefits for Australian and Indonesian business, especially SMEs. 3. The development of a comprehensive standards harmonisation, regulatory coherence and technical convergence program will strengthen Indonesia's standardisation system related to IA-CEPA implementation and enhanced alignment of domestic regulatory systems to international norms. |



LIST OF STAKEHOLDERS AND ORGANISATIONS

| No. | ASSOCIATION |
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| 1 | Advisian Worley Parsons Group |
| 2 | AFS Intercultural Program Australia |
| 3 | Australia Indonesia Business Council (AIBC) |
| 4 | AIBC IA-CEPA Forum – Adelaide |
| 5 | AIBC IA-CEPA Forum – Brisbane |
| 6 | AIBC IA-CEPA Forum – Melbourne |
| 7 | AIBC IA-CEPA Forum – Perth |
| 8 | Air Asia X |
| 9 | ANZ |
| 10 | Australian Chamber of Commerce and Industry |
| 11 | Australian Sugar Industry Alliance |
| 12 | Bluescope |
| 13 | Chamber of Commerce of the Northern Territory |
| 14 | Charles Sturt University |
| 15 | Cristian Teo and Partners |
| 16 | Darwin Port |
| 17 | Euromonitor |
| 18 | Export Council of Australia |
| 19 | Grain Growers |
| 20 | International Energy Agency |
| 21 | Lowy Institute |
| 22 | Meat and Livestock Australia |
| 23 | Minor Hotels |
| 24 | Minter Ellison |
| 25 | National Farmers Federation |
| 26 | Perth USAsia Centre |
| 27 | Peter Cook for AIBC |
| 28 | Standards Australia |



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