Submission 83

AUSTRADE

AUSTRALIAN TRADE COMMISSION

Submission by Austrade to the Senate Foreign Affairs, Defence and Trade References Committee

Inquiry into Australia's relationship with Indonesia

December 2002

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AUSTRALIAN TRADE COMMISSION

TERMS OF REFERENCE

The Joint Standing Committee on Foreign Affairs, Defence and Trade shall enquire into and report on Australia's relationship with the Republic of Indonesia, focussing in particular on building a relationship that is positive and mutually beneficial.

The Committee shall review the political, strategic, economic (including trade and investment), social and cultural aspects of the bilateral relationship, considering both the current nature of our relationship and opportunities for it to develop.

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AUSTRALIA'S TRADE RELATIONS WITH INDONESIA

1.0 INTRODUCTION

The Australian Trade Commission (Austrade) is the Federal Government's principal trade and international business facilitation agency. Our mission is to contribute to community wealth by helping more Australians succeed in export and international business.

Operating as a statutory authority within the Foreign Affairs and Trade portfolio and working closely with other Federal, State and Territory government agencies, Austrade helps Australian business reduce the time, cost and risk involved in entering and expanding overseas markets.

Austrade provides a wide range of international market development and investment services to Australian companies, as well as to international buyers, throughout our network of around 1,000 staff in more than 90 locations in the cities and regions of Australia and throughout the world.

Austrade's services to Australian companies include:

- practical export information and advice;
- identification of overseas market opportunities;
- on-the-ground exporting and investment support overseas and in Australia
- a comprehensive trade exhibition program;
- services to identify potential overseas business partners and to research and access high-potential markets for Australian companies;
- strategic export planning and network formation services; and
- general information, which is provided at no charge to our clients and is available either through our website or the export advisory service. Specific tailored advice is provided to Australian companies based on an hourly rate, quoted in advance.

Austrade has an important role in providing advice and coordination to the Federal Government and its agencies on export matters. Austrade also provides financial assistance to Australian exporters through the Export Market Development Grants scheme, which encourages companies to seek out and develop overseas markets. Under the scheme, eligible Australian businesses are partially reimbursed for approved export marketing costs they incur.

2.0 Country Overview

It is important to note that the assessments, indicators and trends contained in this submission are based on circumstances existing prior to the tragic events in Bali on 12 October 2002.

The full impact on Australia's commercial interests in Indonesia following this event will take time to unfold, and it is too early to know just what the ramifications will be across all industry sectors.

The short term, it is expected that there will be a decline in Australian and international travel to Indonesia (not only Bali), which will impact upon tourism and related sectors such as sales of food and beverages and services to the tourist industry, especially in Bali.

There will be increased difficulty in attracting Australian and foreign direct investment into Indonesia over the medium term, however it should be acknowledged that there has been little new investment from Australia in recent years, due primarily to concerns about security and legal issues.

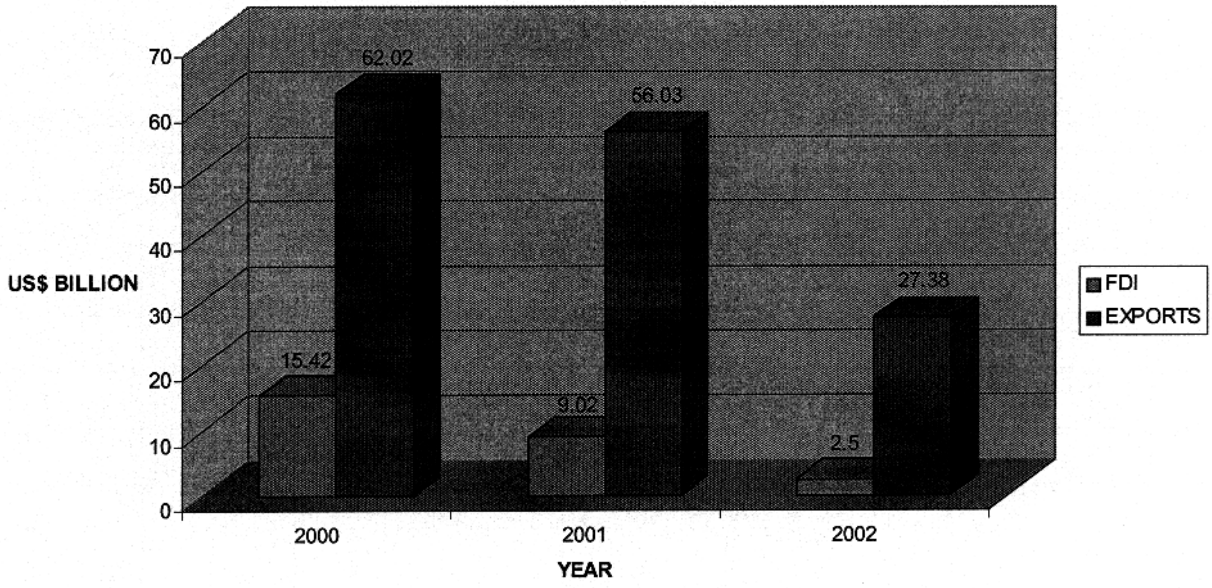
The Bali bombings have influenced risk perceptions across the South East Asia region. However, it is still too early to assess what the longer-term impacts may be.

Australia's 10th largest export market, Indonesia is still seen as having considerable long-term potential for Australian trade and investment. As this submission identifies, the bilateral trade between the two countries has been remarkably resilient during all of the troubled times since 1997.

Indonesia is the world's fourth most populous country with a population of about 211 million and is predominantly Muslim in religious belief (88%). The official language is Bahasa Indonesia however English, Dutch and Javanese are also common. The literacy rate is 83.8%.

The Gross Domestic Product per capita is currently US$760 representing a 14% increase since 1999. Economic growth is expected to improve during the second half of 2002 led by renewed export growth. However, as can be seen from Figure 1, both declining Foreign Direct Investment and a lower export performance during the first half of 2002 seem to militate against that expectation.

FDI & EXPORTS - INDONESIA - 2000 TO 1st HALF 2002



Source: *Jakarta Post* 14 Oct 2002

Figure 1

Indonesia is a $3.2 billion export market for Australian companies with exports growing at a rate of 29.2% during the last financial year [1].

Indonesia was, perhaps, the country most seriously affected by the 1998 South East Asian economic crisis and its recovery remains fragile. It is currently working its way simultaneously through three major reforms – political, economic and administrative – and all of this across an archipelago of some 17,000 islands and scores of different ethnic groups. Realising a democracy after 32 years of autocratic rule, restructuring, reforming and growing an economy after major collapse and devolving administrative power to the regional government administrations is an enormous challenge.

2.1 Austrade in Indonesia

Originally as the Department of Trade, Austrade has maintained a trade office in Indonesia since 1935, with the exception of the period 1942-1950, during the latter stages of World War II and the Indonesian struggle for independence.

Austrade has two offices in Indonesia to provide a range of assistance to exporters seeking to sell goods and services to the market; the main office in Jakarta and a sub-office in Surabaya.

Austrade has a total of 23 staff in Indonesia – 4 Australians (reducing to 3 in December 2002) and 19 locally engaged. Austrade's budget for Indonesia in 2002-2003 is $2.15m. The current industry sector priorities for the Indonesian market are:

- Information, Communications and Technology (ICT);

[1] Source DFAT Fact Sheet 2001/2002

- Education;
- Environment;
- Health;
- Infrastructure;
- Agribusiness;
- Resources; and
- Services.

In 2002/2003, Austrade's focus for the region will be to build stronger and more sustainable relationships between Australian companies and potential business partners in Indonesia by:

- facilitating business missions into the region, in collaboration with State Governments and business councils;
- participating in State-based events in Australia that make a substantial contribution to doubling the number of new exporters; and
- organising inbound buyer missions from Indonesia to Australia.

Austrade supports Australian companies seeking to do business in Indonesia through the provision of information, market intelligence and in-market services including visits, government advocacy and potential partner/customer identification.

At the present time, Indonesia offers best prospects for experienced firms with the resources to commit for the long term. However, there are opportunities for less experienced SME's particularly where they are able to meet a niche demand.

Examples from five Australian companies that Austrade has assisted to win business in Indonesia are provided in the appendix. These examples cover food processing equipment (H.T. Barnes Pty Ltd); building and paving bricks (Bristile Ltd); hearing implants (Cochlear Ltd); beverages (Pure & Natural Beverages Pty Ltd); and fresh fruit and vegetables (Watt Exports Pty Ltd).

During financial year 2001-2002, 60 Australian suppliers credited Austrade Jakarta as, at least, a positive factor in their achievement of export sales to Indonesia of AUD 758 Million and investment into Indonesia of AUD 83 Million.

In a more difficult market environment thus far in Financial Year 2002-2003, 29 export companies have made sales and acknowledge Austrade Jakarta's role in assisting their sales outcome.

3.0 Economic Overview

The outlook for the Indonesian economy remains mixed as the business sector looks to the Megawati government to continue implementing the much needed reforms. Indonesia's economy has been slowing due to the recent US economic slowdown and continuing concerns over political stability and the pace of economic reform. As a result, major infrastructure, such as electricity, transport and ports, is being squeezed in both maintenance and expansion and there are signs of deterioration. The short to medium term outlook for the economy is also dependent on a return to strong global economic growth and a satisfactory resolution of security concerns.

The rupiah is showing signs of stability despite rising some 15% since the end of last year. This has been achieved largely because of the Indonesian government's commitment, supported by the IMF, to maintain the value of the rupiah.

This year, GDP is expected to expand by 3.5%, its third straight year of steady growth. However, this highlights Indonesia's inability to return to the growth levels experienced before the financial crisis, which averaged 6.8% (1992-1997)[2].

Economic growth is expected by the Indonesian government to improve during the second half of 2002. This expectation is based on continued strong performance in its major export categories. These are LPG, oil and petroleum products, pulp, paper and timber manufactures, crude palm oil (of which it is the world's second-largest producer) as well as tin, copper, nickel, gold and silver, amongst other commodities. Clearly these will be subject to the global influences of commodity prices and the performance of Indonesia's troubled minerals sector.

The Megawati administration has implemented a number of reforms aiming to lift business confidence and has also announced the resumption of major projects which halted during the 1998 economic crisis which include a number of state power, petrochemical and fertiliser plants and tollroad projects. However, some of these are beginning to falter in the face of legal and investment uncertainties.

[2] APEC (www.apecsec.or.sg), ADB (www.adb.org/documents/CERs/INO default.asp)

4.0 Trade Ministerial Visits

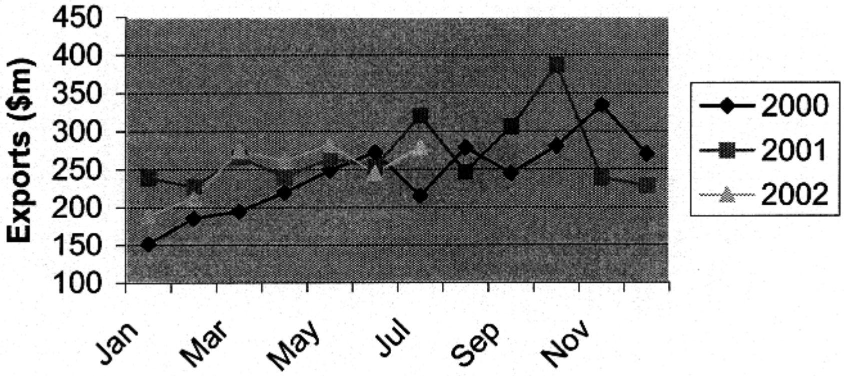
Australia's Minister for Trade, Mark Vaile MP, last visited Indonesia in March 2002. The Minister promoted Australia as a trading partner by delivering a keynote address to the annual Australia Indonesia Joint Business Council conference held in Bali. The Minister also developed further bilateral trade and commercial relationship between Indonesia and Australia by holding bilateral talks with his Indonesian counterpart, HE Mrs Rini Soewandi, Minister for Industry and Trade.

In February 2001, the Minister led a high level investment mission to Indonesia. The mission was very effective in relation to the investment outcomes achieved and in advancing economic interests in Indonesia. Senior Indonesian Ministers remarked positively on the mission and indicated they looked forward to working cooperatively with Australia. It provided a strong basis on which to build an important commercial relationship. Firms which participated in the high level Investment Mission have subsequently invested more than $75 million in Indonesia.

5.0 Australia-Indonesia Trade

Indonesia currently ranks as the 10th most important merchandise export market for Australia. In 2001, Indonesia's export levels declined due to the lower world oil prices and the economic slowdown of two of Indonesia's main trading partners, Japan and the U.S. Despite this Australia's exports to Indonesia continue to grow, as depicted in the graph below and are nearing pre-financial crisis levels once again.

Australia's Exports to Indonesia



Source: DFAT Composition of Trade.

Figure 2

Australia's trade position with Indonesia over the past five years (1996-2001) has declined from a $1.4 billion dollar surplus to a $814 million dollar deficit due primarily to increased petroleum imports from Indonesia whilst Australian exports to Indonesia have remained at about the same level as that in 1996-97.

Australia's Trade With Indonesia – 1996-7 to 2001-2

$A,000	1996-7	1997-8	1998-9	1999-00	2000-2001	2001-2002
Total Exports	3,305	2,751	2,199	2,408	3,111	3,193
Total Imports	1,864	2,868	3,275	2,701	3,315	4,007
Balance of trade	1,441	-117	-1,076	-293	-204	-814

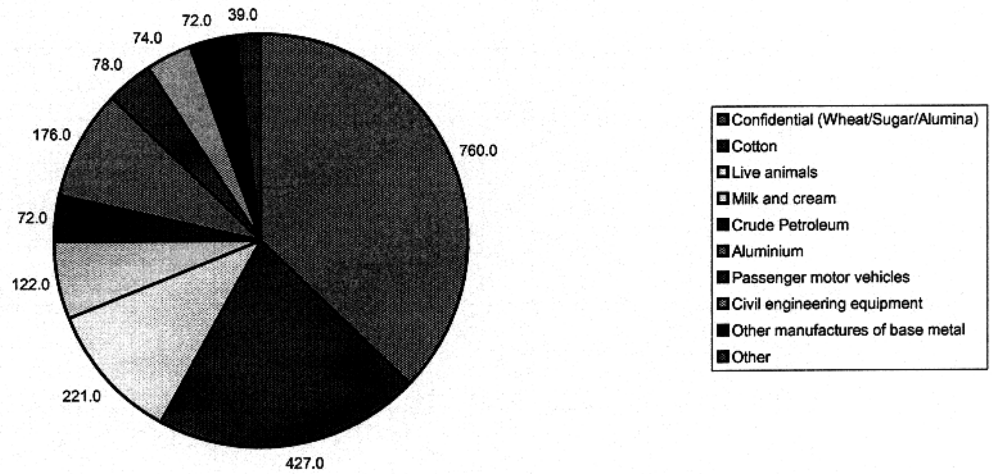
Source: DFAT Composition of Trade 2000-2001; DFAT Market Information and Analysis Unit.

Table 1

The major exports to Indonesia from Australia are primary goods, although manufactured goods account for 37% of total exports and are the fastest growing category. Major Australian exports in the year-to-date to July 2002 were confidential items (mainly wheat) ($760m), cotton ($427m), live animals ($221m), aluminium ($176m), milk and cream ($122m), passenger motor vehicles ($78m), civil engineering equipment ($74m) and crude petroleum ($72m). The key export items are those which can be value added and re-exported.

For example cotton is value added by a factor of about 8 then mainly re-exported, including to Australia. Similarly, aluminium, wheat, flour and live cattle provide inputs not only to Indonesia's domestic economy but also to value-added exports. However Indonesia's exports overall are slowing, which is a concern for the future prospects of these industrial inputs and commodities.

AUSTRALIAN MERCHANDISE EXPORTS TO INDONESIA - YoY JULY 2002 (A$M)



Data source: DFAT, Jakarta

Figure 3

Major imports from Indonesia are also primary goods, but manufactures account for 38% of total imports from Indonesia. Major Australian imports year-on-year to July 2002 were crude petroleum ($1.62bn), non-monetary gold ($480m), refined petroleum ($139m), paper & paperboard ($107m) and furniture ($87m).

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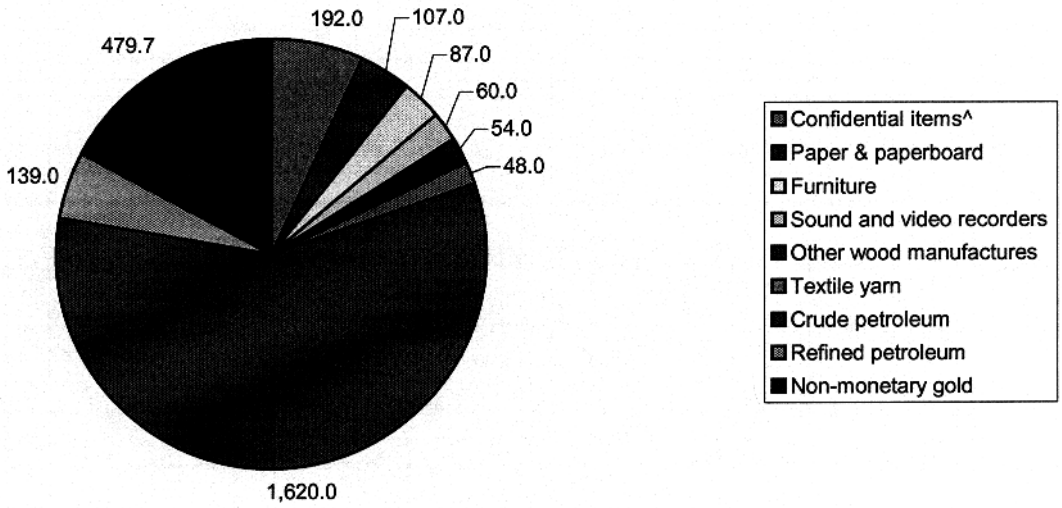
AUSTRALIAN MERCHANDISE IMPORTS FROM INDONESIA - YoY JULY 2002 (A$M)



Data source: DFAT, Jakarta

Figure 4

In 2000 (the latest services statistics available) Australia's services exports to Indonesia were worth $841 million, mainly transportation ($158m), travel ($554m) and other (129m). Services imports of $550 million, mainly transportation ($221m), travel ($256m) and other ($73m).

The drivers of improved trade between Australian and Indonesia are that we are starting from a solid base; the bilateral investment relationship is substantial; niche prospects exist for trade and investment growth; there is a high degree of complementarity; there are strong people to people ties; and the Government to Government relationship is constructive.

Despite the difficulties and challenges in the market one needs to recognise that in the population of about 210 million, even though 58% of them live on less than US$ 2 per day, 30 million – one and a half times the population of Australia – are middle class, with commensurate spending power.

6.0 Trade and Investment Environment

Indonesia's draft 2003 budget (pre-October 12) announced in August this year is predicated on: inflation: 8%; the exchange rate: IDR 8,700/US$; and an interest rate of 13%. GDP growth for 2002 is projected at about 4% and is predicted to rise to 5% in 2003.

During 1998 domestic investment fell by 43%, but rose again to about 26% in the third quarter of 2000. During 2001 and the first quarter of 2002, domestic investment growth fell again into negative territory, although it has remained steady since then. However, as can be seen from Figure 1 on page 6, FDI approvals in the first half of 2002 are only about 15% of what they were in 2000.

The private sector's low level of investment indicates doubt about the health of the economy and a lack of business confidence. Since about 1998 Indonesia's economic growth has been fuelled initially by a strong export performance and by consumption. As export performance began to decline, consumption remained strong, but with that now beginning to flatten out and export performance still declining, it seems unlikely that further growth will be stimulated without investment spending. For similar reasons the level of Foreign Direct Investment has declined sharply and there is a net capital outflow from Indonesia of about US$10 billion per annum. In 2001, FDI approvals dropped by 41% on 2000 figures. In the first two months of 2002, FDI approvals were down by a further 79% on 2001 data, at US$920 million.

Notwithstanding this difficult environment, modest – and cautious – investment by Australian companies has continued. The existing substantial investment relationship comprises more than 400 Australian firms maintaining a presence in Indonesia, which remains a major destination for Australian investment. According to the ABS, Australian investment in Indonesia is approximately $3 billion. However, marketplace intelligence indicates that it is higher than that, and investment approvals amount to $10 billion. It is concentrated in the resources and energy sectors. Investment continued even during difficult times: P&O Ports Pty Ltd, Mayne Group, ANZ and Commonwealth Bank increased equity injections in existing operations and, more recently, Energy Equity has done so.

Australian business has a range of concerns about the investment environment including those discussed above, but particularly regarding the implementation of decentralisation reforms and the capacity of regional administrations to assume their additional responsibilities. Mining companies are particularly concerned about the security of their investments in Indonesia. Any sustained increase in Australian investment will depend on Indonesia improving its investment climate.[3]

[3] DFAT Indonesia Country Brief, August 2002.

6.1 Business Environment for Australian Companies

Throughout the financial crisis and the political tensions of 1999, Australia and Indonesia have continued to enjoy a sound and pragmatic commercial relationship. The strong complementarity between the two economies, recent trade liberalisation, Indonesia's large and growing population and an expanding middle class makes Indonesia a prospective market for Australian exporters – particularly in the longer term.

Australia enjoys a strong commercial relationship with Indonesia. The Directory of Australian Businesses in Indonesia records more than 200 companies with interests in Indonesia, but the actual number is considerably higher.

Austrade estimates that more than 400 Australian companies have a presence in Indonesia and many of them have significant investments in the country. These include:

- ANZ – through both a direct stake in, and a joint venture with Panin Bank, providing full commercial banking services;
- Bank Commonwealth, with full commercial banking services;
- BHP-Billiton – coal mining and steel products;
- Clough/Petrosea – engineering and construction services for the oil and gas, mining and infrastructure industries;
- Coca-Cola Amatil – new state-of-the-art facility at Cibitung, on the outskirts of Jakarta;
- Leighton (including John Holland/Thiess) – building, civil engineering, environment services, contract mining;
- Mayne Group – healthcare and logistics services;
- Novus Petroleum – oil and gas production;
- Santos – oil and gas production;
- Energy Equity – power generation;
- P&O Ports – two facilities (Surabaya and Timika in Irian Jaya).
- Rio Tinto – coal, gold and copper mine interests in East Kalimantan and Irian Jaya

7.0 Austrade's Activities and Opportunities for Australian Business

Austrade has identified the following sectors where opportunities are available for Australian products and services. These are: information, communications & technology (ICT) services; automotive; environment; health; infrastructure; agribusiness; resources and services.

7.1 Information, Communications & Technology Services.[4]

The Indonesian Government has not actively supported the development of its ICT industry or software parks. Thus, most ICT businesses in Indonesia are agents and distributors for multinational firms.

The market for ICT goods and services in Indonesia is relatively small; in 2001, it totalled US$3.5 billion and grew at an annual average of 3 per cent between 1993 and 2001.[5] The potential for growth in Indonesia's ICT market is great as Indonesia has the world's fourth largest population, however the teledensity rate is only 31 fixed lines per 1,000 people and the PC penetration rate is low at 9.9 per 1,000 people, demonstrating that only a small share of the population is able to understand and take advantage of the new technologies.

In 2001, Indonesia's expenditure on IT equipment was US$820 million or 23 per cent of total ICT spending. With increasing incomes, higher education levels and greater awareness of technology, the IT market should grow. The software segment represents a small share of the overall ICT industry. In 2001, Indonesia's software spending was US$124 million, or 3.5 per cent of total ICT spending.

In 2001, Indonesia's spending on telecommunications equipment and services was US$2.3 billion representing 0.2 per cent of world spending; expenditure grew at an average annual rate of 2.1 per cent between 1993 and 2001.[6]

Indonesia's telecommunications market is slowly being liberalised and is growing, attracting foreign investors.

Indonesia has two state-owned companies and one private company in the fixed line telecommunications sector. PT Telekomunikasi Indonesia, PT Telkom, is a majority state-owned carrier with a monopoly on domestic call services, including telephone (local, long distance and international direct dial), facsimile, and telegraph services.

At the end of 2000, Indonesia had 7 mobile cellular operators; three with nationwide GSM-900 networks and four regional analogue networks. The mobile penetration rate is around 1.7 per cent of the population and 96 per cent of subscribers use GSM [7]. Mobile customers (7.27

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[4] This section draws significantly on a draft DFAT EAU report on ICT in East Asia.
[5] International Data Corporation, 2002
[6] Ibid
[7] Menger, M., 2002

million) surpassed fixed line subscribers (7.21 million) as at March 2002 and are expected to reach 28 million compared to 12.2 million fixed line subscribers by the end of 2006.

In 2001, the Indonesian Government streamlined ownership of PT Telkom and PT Indosat to make them more attractive to private sector investors ahead of market liberalisation, due in 2003[8]. PT Telkom gained control of PT Indosat's 35 per cent stake in Telkomsel, the largest mobile telephone service provider, taking its share to 77.7 per cent; PT Indosat acquired Telkom's 22.5 per cent stake in the rival mobile service provider PT Satelindo, taking its share in the company to 75 per cent.[9] The Government is planning to further privatise the two companies. The sector needs further liberalisation and investment to increase the teledensity rate, which is one of the lowest in East Asia. The tender process for a 42% stake in Indosat is currently taking place with bids by interested parties closed on 7 November 2002 and an announcement by the government of the winner scheduled for December 2002.

Penetration of personal computers, telephones and the Internet is low in Indonesia, particularly compared with rivals in the region, such as the ROK and Singapore. Indonesia's large population of 211 million, the fourth highest in the world, means that there is much scope for growth in the market. Indonesia is a nascent market for e-commerce and it will remain so until there is further infrastructure development.[10]

In 2000, most Internet use was professional or business related, with 52 per cent of users accessing the Internet from work, followed by 26 per cent from Internet cafés and 19 per cent from universities.[11] Internet users are young, with more than half being between 15 and 24 years of age.

In 2001, Indonesia had 2.3 million Internet users, for a penetration rate of only 0.5 per cent.[12] It is likely that Internet users are more numerous than subscribers as, often, several people use one personal computer. In addition to low penetration, most Internet service coverage is limited to several big cities, with INDOSATnet having the largest market share.[13] In July 2002, the number of Indonesian domains was 14,178, up from 87 in 1995.[14]

In October 2001, Indonesia had 150 licensed ISPs of which around 40 were providing services.[15] Indonesia has a very low level of Internet commerce, at 0.08 per cent of total commerce.[16]

In 2001, Australia recorded an ICT trade deficit with Indonesia of $51.2 million. Although small, this represents a major turnaround from the experience for most of the decade when Australia imported very few ICT goods from Indonesia. Between 1991 and 2001, Australia's ICT exports to Indonesia increased by 3 per cent, while ICT imports from Indonesia increased by almost 106 per cent over the decade from a very low base. In 1998, after the Asian

[8] EIU Viewswire, 2002
[9] IEU Viewswire, 2002
[10] Ibid
[11] AC Neilsen survey
[12] International Data Corporation, 2002
[13] WASANTARAnet, owned by PT Pos Indonesia, is available in 26 provinces and INDOSATnet, owned by PT Indosat, service 12 big cities (Boerhanoeddin, Z., 2000).
[14] IDNIC, July 2002
[15] Rahardjo, B., 2001
[16] International Data Corporation, 2002

financial crisis, Australia's ICT exports to Indonesia fell by a significant 65 per cent but have increased to be around half of the pre-crisis level.

In 2001, Australia's main ICT exports to Indonesia, all of relatively small value, were telecommunications parts ($5 million), PCs ($4.8 million), electronic components ($2.1 million), computer parts ($2.1 million) and other computer hardware ($1.6 million). Highest export growth was in telecommunications parts, telephone and telegraphic equipment and PCs and the largest fall was in exports of mainframes. In 2001, Australia's main ICT imports from Indonesia were: other input-output devices and peripherals ($22.8 million); computer parts ($21.8 million); laser and other printers ($11 million); other computer hardware ($10.9 million) and; electronic components ($4.8 million).

Sectors of Indonesia's ICT industry with potential for trade and investment include:

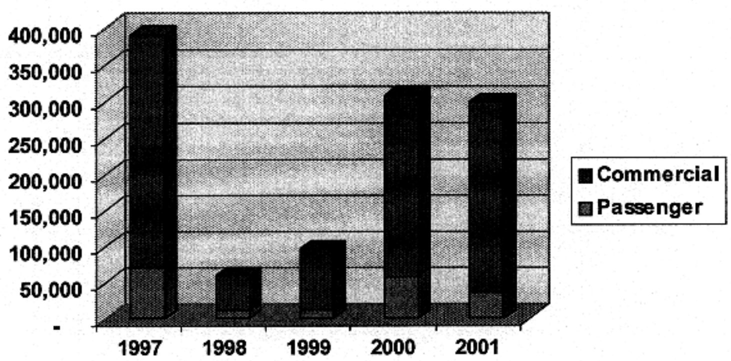
- system integration; opportunities should occur as systems integration gathers pace. To date, most existing computing environments have been developed on an ad hoc basis;
- support systems/facilities management - support systems for disaster recovery and total facilities management are at an early stage of development;
- training and computer education facilities;
- professional services - acute shortage of trained IT personnel to support both current levels of expansion and handle sophisticated customisation of systems;
- outsourcing - large organisations tend to outsource IT requirements;
- Internet - although lowest in South East Asia, Internet use is growing.

7.2 Automotive

In 1999 the Indonesian government significantly revised its national automotive sector policies in order to promote the development of a more efficient and globally-competitive automotive industry, particularly the components and after-market segments.

The Indonesian automotive market has significant potential. It has already recovered to a considerable degree to the pre-economic crisis level of 1997.

INDONESIA VEHICLE SALES 1997-2001 (IN UNITS)



Source: GAIKINDO

Figure 5

In the year 2000, vehicle sales in Indonesia amounted to 309,514 units or a 300% increase from the 1999 level of 96,767 units. The increase predominantly resulted from unexpectedly strong economic growth of almost 5% in 2000 as driven by domestic consumption.

New model introductions were reportedly the factor holding up vehicle sales in 2001, as economic growth during 2001 softened to about 3.3% and the Rupiah exchange rate to the US$ remained weak at about the Rp10,000 level. Overall there was only a slight decrease in sales of about 3% to 299,629 units.

Completely Built Up (CBU) imports into Indonesia have grown rapidly following import deregulation in 1999. This deregulation is being utilised increasingly by brand owners including Ford, General Motors and Honda, who are also using the ASEAN Industrial Cooperation (AICO) scheme to import CBU vehicles manufactured in ASEAN countries Thailand and the Philippines with a 5% import duty.

In 2002 there have been three inward automotive missions to Australia and two outward tooling missions to Indonesia, each organised by Austrade Jakarta. Board members of Astra International (Indonesia's leading automotive manufacturer under licence of Toyota, Isuzu, Daihatsu, Nissan Diesel, Honda Motorcycle, Peugeot, BMW) visited Adelaide and Melbourne in February-March 2002. This visit was followed by an aftermarket buying mission to Sydney and Melbourne in May 2002 by Astra Komponen. The third inward mission from Astra International's Isuzu manufacturer, PT Pantja Motor, then visited automotive original equipment manufacturers (OEM) in Melbourne in September 2002.

Three Victorian tooling / engineering companies and five South Australian tooling companies visited Astra International's component manufacturing companies and some of its component suppliers in June 2002, investigating opportunities in supplying plastic injection moulds, metal stamping dies and design / engineering services.

Austrade Jakarta is currently planning a major Australian automotive mission of 10-15 automotive component manufacturing, tooling and engineering companies, which is expected to visit Indonesia and Thailand in February / March 2003.

Opportunities in Indonesia for the Australian automotive industry include the following:

- Raw material supplies including aluminium ingots, steel tubing, foundry sands;
- Automotive components including air conditioning systems, suspension, steering components;
- Manufacturing technology including plastic injection moulds, metal stamping dies, process engineering;
- Aftermarket products (lubricants, coolants, additives) and accessories.

With AFTA bringing import duties down to 0%-5% amongst the ASEAN countries in 2003 (in the case of Malaysia, 2005), Indonesia is already recognised as a strategically important market for carmakers and it is expected to become a critically important production base for vehicles and for automotive components.

7.3 Environment

The environment sector in Indonesia has good potential, but still needs more institutional support, legal instruments and law enforcement and these are progressing at a relatively slow pace. A law on water was proposed the Government of Indonesia was held in recess until 10th January 2003 and includes issues such as water quality, integrated river basin management, corporatisation and private sector participation in water resources management.

With the regionalisation of authority, Regencies (Kabupaten) and Municipalities (Kota) have more responsibility in managing environmental issues, as well as in providing public services like solid waste management, water supply and sanitation, however a lack of funding and social issues (including low tariff affordability) often hinder development. In recent years they have begun to approach private companies, mainly to seek investment and access to technology. Build, operate, transfer and concession schemes remain the main types of public-private partnerships that are being considered by these local governments, however they are still looking for appropriate models to adopt.

Opportunities in the environment sector are mainly in environmental management in the more established industries, such as mining, oil and gas, and manufacturing, particularly with the multi-national companies, which seek to maintain their global corporate standards. Cleaner production technology is also getting wider attention, since it enables savings for the companies, and the decrease in the quality and quantity of the water supply for industries opens opportunities for water treatment equipment, particularly if it can provide for water recycling.

Another opportunity is through projects funded by multilateral funding agencies and there are some environment-related projects in the pipeline, as well as ongoing projects. These projects cover urban water and sanitation, water resources and irrigation, solid waste management and cleaner production.

In the year 2002/2003, Austrade Jakarta organised two Joint Working Group on Environment (JWGE) meetings, in Jakarta (September 2001) and Melbourne (April 2002). Both events attracted considerable industry interest in Indonesia and Australia. Thirty-one representatives of the Australian environment industry attended the JWGE meeting in Jakarta, and a forty-two member mission, consisting mainly of Indonesian business people, attended the JWGE meeting in Melbourne, as well as the Enviro 2002 trade exhibition.

Austrade Jakarta has also been assisting individual Australian environment companies in their efforts to enter the Indonesian market. These are consultancy service providers, as well as suppliers of environmental products such as ultraviolet disinfection, water treatment equipment, odour control chemicals and production of organic fertilisers from solid waste.

The main means of market entry into Indonesia for the Australian environment industry is through a local partner, such as a distributor or a joint venture. In addition to providing market research for particular products and delivering market opportunities, Austrade Jakarta also assists the Australian environment industry in finding potential local partners.

7.4 Health

There are around 1,100 general hospitals operating in Indonesia, of which, 888 are hospitals providing basic medical services. The remainder provide specialist services and may also provide basic medical services. The distribution of hospitals is concentrated in Java (531 hospitals), which includes the majority of private hospitals.

Affluent locals and expatriates source medical treatment from private and/or international hospitals. There are 518 private hospitals in Indonesia. For cases that Indonesian hospitals cannot handle, patients are usually referred to Singapore or Australia.

Overall, there is enormous pressure on the hospital system to rationalise and improve efficiencies. An industry report by PT Data Consult in 2000, estimated that in the medium term there would still be a need for up to 69 new hospitals, with an average capacity of 200 beds to meet demand.

There are three Australian joint venture hospital operations in Indonesia (two in Jakarta and one in Surabaya) all run by Mayne Health. In addition, there are several clinics (SOS, Global Doctor, Bali International Medical Centre) with Australian affiliations and accreditation.

Australian experience and expertise is relevant to a number of areas in the Indonesian health industry and opportunities currently being pursued by Australian suppliers include:

- Private hospital development and management projects (in partnership with local organisations);
- Alliances with strategic specialist providers (eg. coronary care, eye and ear institutes) and local clinics;
- Provision of private health insurance schemes;
- Hospital staff (both paramedical and administrative) training;
- Export of medical and hospital equipment.

One of the major sources of investment interest in future hospital developments is from local Indonesian construction and property development companies. In hospital management, these Indonesian companies are frequently seeking offshore expertise, including management capability from Singapore, Germany, USA and Australia.

The Indonesian government has imposed community service obligations on private hospital providers by requiring that at least 15 per cent of their beds be made available for the lower income groups, with the charges for these beds set significantly below the cost of providing the service, and thereby requiring subsidy from other areas of the hospital's operations.

Australia is well positioned to take a substantial role in future developments, as Australian health sector capabilities are broadly recognised in the community. There are a number of private referral services operating in association with Indonesian doctors and hospitals, facilitating the transfer of private patients for more advanced treatment in Australia.

7.5 Infrastructure

Indonesia's infrastructure development has been constrained since the economic crisis in 1997. In particular, the Government of Indonesia (GOI) has not been in a position to contribute funds to "mega" public infrastructure projects. Major private sector projects have been stalled due to unresolved corporate debts, a non-functioning banking sector and legal uncertainty.

Business opportunities therefore remain restricted to those projects which have an overseas funding source such as a multilateral agency or the Japan Bank for International Cooperation (JBIC); are of a smaller scale; or are related to a private sector (often multinational) industrial project.

A privatisation process is ongoing but proceeding very slowly. The GOI has announced a plan for the privatisation of 25 state owned enterprises, including some airport infrastructure and telecommunication companies, but this is being met with strong resistance from employee groups and nationalist legislators. The privatisation process of Soekarno Hatta Airport (Jakarta) is underway with Denpasar (Bali) next in line.

The GOI is encouraging public-private participation in the areas of port development and operation, toll-roads, the proposed Jakarta subway, water supply and sewage treatment, and railway development and operation (for regional mining operations). The GOI has also offered investment opportunities for parts of the Jakarta outer ring road and in a number of toll-road projects.

With regard to water resources, there is growing concern about drinking water supply and quality. Households are seeking deeper wells and are purchasing larger pumps to secure reliable groundwater. Another priority is rural water, particularly in eastern Indonesia. The World Bank and ADB have been supporting public-private participation in the water sector, however low utility charges largely mean that investment in local water authorities (PDAMs), Jakarta sewage installation and regional water resource projects are not feasible.

Transport and power infrastructure projects funded by the World Bank and the Asian Development Bank (ADB) offer project components opportunities to Australian service providers such as capacity building, training, business systems and governance.

Other opportunities include:

- Regionalisation of authority means many smaller infrastructure projects proposed by Regencies (Kabupaten) and Municipalities (Kota) are becoming available in regional areas;

- Looming power shortages due to GOI funding difficulties for new capacity and for maintenance, means that Independent Power Producer (IPP) opportunities are increasing with corporations and local governments (Kabupaten and Kota) installing smaller (20 MW) power plants and selling excess power to the GOI power authority (PLN). Wealthy households are also beginning to install generators to safeguard against increasing black outs;

- Problems with water supply and quality means that corporations are installing water treatment equipment to provide clean water to their boilers and industrial processes;

- Most infrastructure projects require environmental impact assessments, and these provide an ongoing opportunity for Australian service providers;

- Telephone density in Indonesia is only 3% for a population of 210 million. Cellular phone expansion to meet this need offers base station and microwave infrastructure opportunities.

7.6 Agribusiness

Indonesia's demand for agricultural commodities is expected to remain strong, as the processing of agricultural commodities continues to expand. Indonesia is, in its own right, a major agricultural producer. The industry contributes 18 per cent to GDP and employs 45 per cent of the labour force.

According to Australia's National Food Industry Strategy, food exports to Indonesia have increased at a trend average of 13.7 per cent over the past eleven years, which has seen Indonesia progress from being Australia's ninth most important market in Asia in 1991-92 with a market share of 3.1 per cent, to its second most important market in Asia in 2001-02 with a market share of 8.7 per cent (refer Table 2).

Share of Total Food Exports to Asia – 1991-92 and 2001-02

	1991-92		2001-02	
Country	**%**	**Rank**	**%**	**Rank**
Japan	48.0	1	35.3	1
Indonesia	3.1	9	8.7	2
Korea	11.0	2	8.2	3
Malaysia	6.6	4	8.1	4
Hong Kong	6.2	5	7	5
China	3.3	8	6.9	6
Taiwan	9.1	3	5.7	7
Singapore	5.6	6	4.8	8
Philippines	3.8	7	4.6	9
Thailand	1.5	10	2.7	10
Total Top Ten	98.2		92.0	
Other Asia	1.8		8.0	

Source: National Food Strategy estimates based on ABS data

Table 2

Exports of food to Indonesia continued to perform strongly during 2001-02, increasing by 14.5 per cent compared with a trend average of 13.7 per cent over the eleven years from 1991-2002, as shown in Figure 6. As a result of the Asian financial crisis, food exports to Indonesia fell sharply in the two years following the previous high of $1.092bn recorded in 1996-97. Since 1999-00, this lost ground has been regained, with food exports to Indonesia reaching $1.15bn in 2001-02, exceeding the 1996-97 record for the first time.

Indonesia accounted for 8.7 per cent of total food exports to Asia during 2001-02 compared with a high of 10.7 per cent during 1996-97 and only 3.1 per cent in 1991-92.

Exports of Food to Indonesia – Ranked Australia's No. 2 Asian Destination

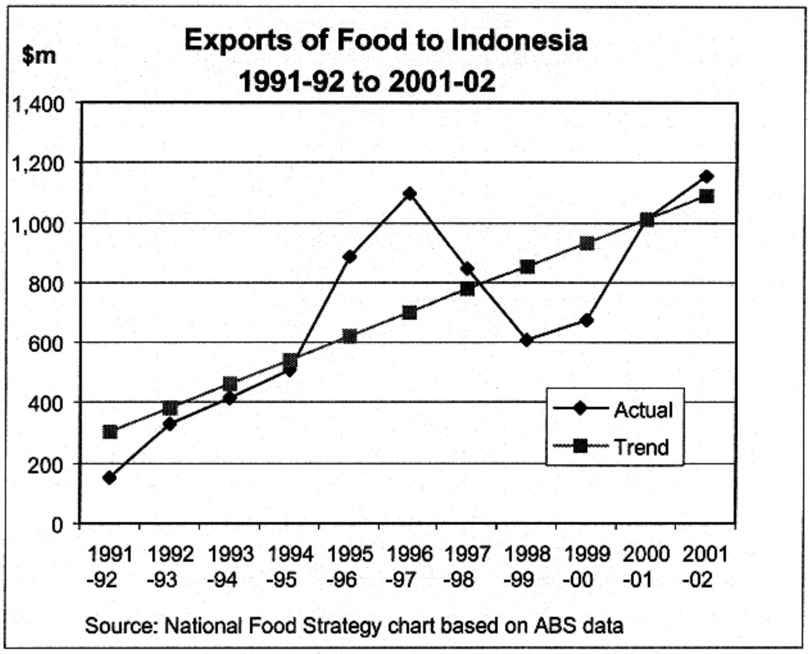


Figure 6

Indonesia is Australia's largest market for live cattle exports. Meat consumption is currently around 4.3 kilograms per capita per annum, with poultry being the largest proportion of meat consumed.

Australia is a major supplier of horticultural products such as citrus fruit, and also exports apples, pears, grapes, potatoes and onions. In 2001 Indonesia imported $34 million dollars worth of fruit and vegetables from Australia which was a 59.3% increase from the previous year. Opportunities exist for the supply of fresh vegetables to the Indonesian retail, hotel and restaurant sector.

With the continued development of agricultural cultivation, Indonesia's demand for seedlings for horticulture, plantation and industrial forest crops continues to grow. For example, Indonesia's rice yield is only 4.5 tonnes per hectare compared to Australia's 14.5 tonnes per hectare. As a result, for further development to take place, the Indonesian Government has removed many of the duties and import barriers associated with the seedling industry.

In 2001, Indonesia imported over A$541 million in cotton from Australia representing between 650,000 and 800,000 bales of Australia's total cotton production each year (approximately a quarter of the entire Australian crop). Other major commodities include salt, sugar and wool tops.

Opportunities in the Indonesian processed food industry for Australian companies include smallgoods such as jams; non-alcoholic beverages such as juices and energy drinks; pre-prepared/pre-packaged food; food ingredients and join venture or licensing arrangements for food products.

There are currently over 500 supermarkets in Indonesia and most are located in the greater Jakarta area (Jabstabek), and other major cities in Java. With growing exposure to Western and convenience-type foods, the expanding Indonesian middle-income segment provides significant opportunities for Australian food companies wanting to export to Indonesia.

Opportunities for wine products in Indonesia exist in the food service sector, duty free stores and supermarkets. These industry sectors target the middle to upper income segment (approximately 30 million Indonesians). It is estimated that about 60 per cent of wine (by volume) consumed in Indonesia is sold in Bali, the largest tourist centre of the country. About 35 per cent of wine is sold in Jakarta and the remaining 5 per cent in other large cities. Australian wines have a market share of over 60 percent in Indonesia. Cask wines are particularly popular and are used widely by cafes and restaurants as they are a lot cheaper than bottled wines. Although taste is important, Indonesian consumers are still developing their knowledge of wines in general.

7.7 Resources

It is important to remember that Indonesia is one of the most geologically prospective locations in the world. Coupled with this fact, the supportive policies of the Government during the three decades to 1998 led to the emergence of Indonesia as a major global minerals producer. At the same time, its enormous gas reserves and, to a lesser extent, oil, became the largest single contributor to the Indonesian Government's export earnings and in 1999-2000 it contributed 28% of domestic revenue and 22% of Indonesia's export earnings. This was achieved, however, on the back of contractual arrangements that were considered to be globally attractive. The situation has changed.

Few of the contracts of work have proceeded to production. The view of the Indonesian Mining Association is that, in addition to the structural economic barriers to investment, there are intangible barriers. These include inconsistent application of regulations. Others take the view that many of the contracts have been entered into speculatively, with contractors having no capability nor resources necessary to proceed further.

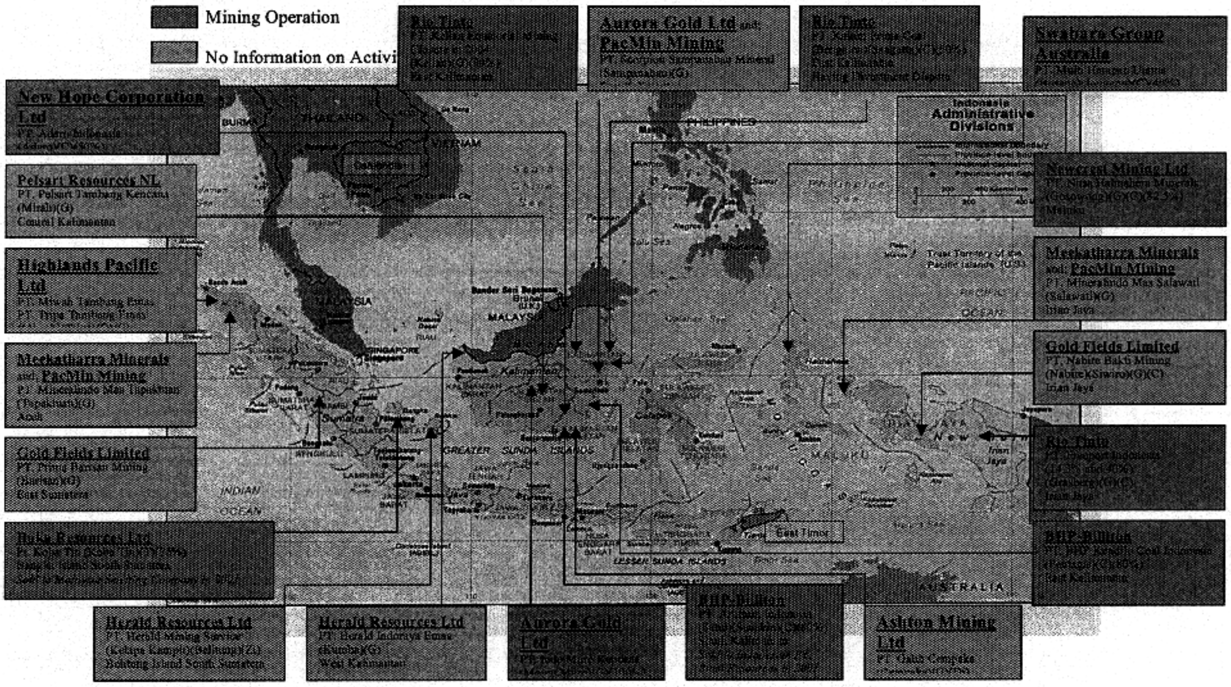
The Oil and Gas sector has been dominated by the government organisation, Pertamina. Foreign contractors have been required to enter into various sharing contracts with Pertamina, of which the most common is the Production Sharing Contract (PSC). While not without their barriers, these arrangements have been, effectively, with the central government and have provided a stable basis on which to develop bankable investment proposals. Some factors in these arrangements have changed also.

7.7.1 Mining

About half of the Australian minerals operations in Indonesia are in Kalimantan (refer Figure 7). More recently the exploration focus has moved away from Kalimantan and coal, into Sumatra, Sulawesi, Java and Irian Jaya and, primarily to gold, however 76% of these exploration projects have been suspended due to a poor investment climate. This can be seen in Figure 8 and is consistent with the wider trend. Exploration investment is currently about 10% of pre-crisis levels.

Australian Mining Operations in Indonesia

(Department of Industry, Tourism and Resources, Jakarta – January 18, 2002)



Source: Department of Industry Tourism and Resources, Jakarta, January 2002

Figure 7

Australian Mining Exploration In Indonesia

Source: Department of Industry Tourism and Resources, January 2002

Figure 8

During the next three years, nine mines in Indonesia will close either through expiry of contract or dwindling reserves. Unless Gag Island Nickel and Weda Bay Nickel projects or Newcrest's gold prospect in Halmahera come on stream, there will not be any new major developments to replace them. Current indications are that it is likely that the Indonesian government will find ways to honour the existing agreements covering these tenements. A number of smaller developments, such as the one announced recently by Newmont (formerly Normandy), in Sumatra, seem likely to proceed.

Kalimantan remains a location of high activity, Sumatra is a close second and the eastern provinces of Sulawesi and Irian Jaya follow. What may inhibit progress, apart from legislative or regulatory issues, is a focus of ethnic and sectarian violence and/or calls for separatism.

The mining sector, is important to both Australia and Indonesia. Mining contributes up to 5% of Indonesia's GDP and in 1999/2000 revenues from the resources sector accounted for about 30% of the national budget. Australia is amongst the world's top two producers in coal, gold tin and silver and accordingly our major mining **companies find great complementarity with the geological prospects of Indonesia.**

AUSTRALIA'S PLACE AS A MINERALS PRODUCER IN INDONESIA

MINERAL	TOTAL PRODUCTION Tonnes *	AUSTRALIA'S SHARE Tonnes *	RANKING	LEADER(S)
COAL	73,648,000	25,724	1ST	Indonesia (close), then South Korea
GOLD	128.6	20.4	2nd	Canada (X4.5). USA 3rd
COPPER	2,645,200	-	-	USA
TIN	47,753	10,678	2nd	Indonesia
NICKEL (Ore)	3,235,286	-	-	Indonesia
NICKEL (Matte)	45,901	-	-	Canada
SILVER	299	128.4 **	2nd	USA

* Statistics include Newmont (USA) and a few small operators.
** 1999 figures: source Directorate General of Mines

Figure 9

Australia is a prominent supplier to the Indonesian mining industry, including:

- Pumps;
- Drilling equipment;
- Crushing equipment;
- Mine pit software;
- Conveyor systems;
- Mining consultancy services; and
- A wide range of spare parts and consumables.

Even in the current difficulties, mining equipment and services contribute about A$340 million to Australia's exports to Indonesia.

Beginning in about 2000, an unresolved raft of issues have caused mining operators to view the relative attractiveness of the Indonesian mining sector in a new light. Investment has substantially declined, exploration activity is at a very low level, some operators have withdrawn from the market and others have placed expansion proposals on hold. There are a number of challenges facing the Indonesian mining sector, but the most important ones are:

- there is no current national minerals policy and legislation; and
- the resolution to most other issues, such as conflicting forestry legislation, labour unrest, and legal and judicial uncertainty lie outside the domain of the Ministry of Energy and Mineral Resources.

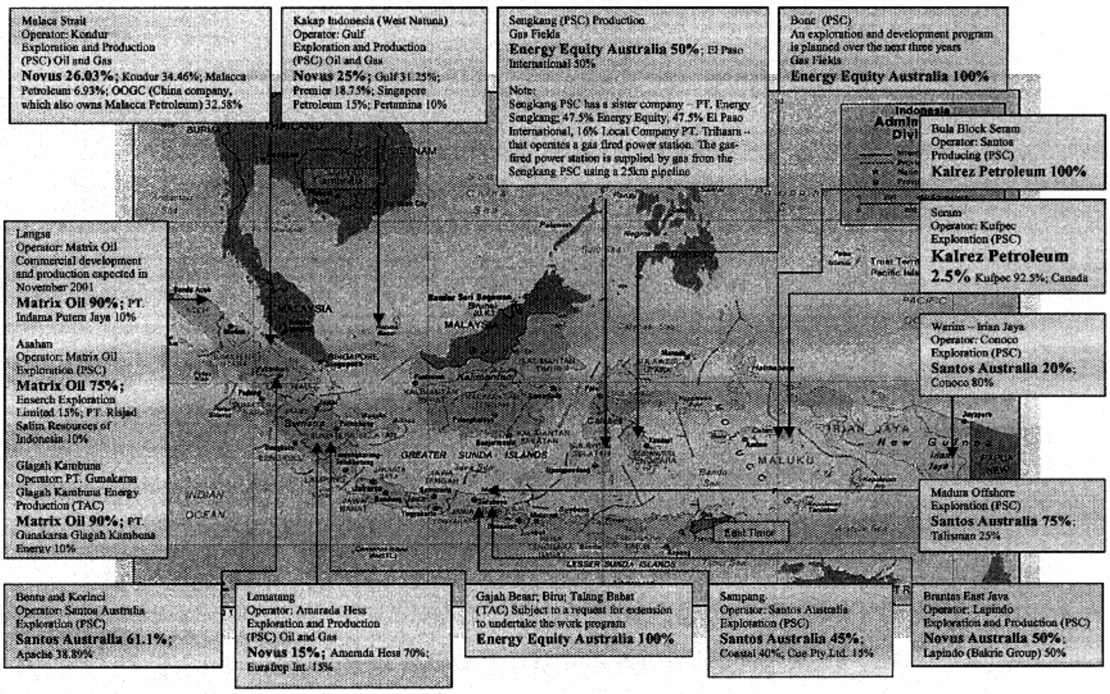
Most existing operators continue to do well, albeit usually with reduced mine lives.

7.7.2 Oil and Gas

Indonesia's proven oil reserves are approximately 9.8 billion barrels. At the current production level of 1.41 million barrels of oil per day, without major new discoveries and technology advance such as enhanced oil recovery and deep water exploitation, analysts agree that Indonesia is likely to become a net importer within the next ten years.

Indonesia is the world's largest exporter of natural gas ahead of Australia and Qatar. Indonesia's gas reserves are large, which is estimated around 160 trillion standard cubic feet or about 27 billion barrels of oil equivalent. The natural gas processed to LNG and Liquefied Petroleum Gas (LPG) is especially important for Indonesia's trade. The trend is toward natural gas exports overtaking crude oil exports. Australian oil and gas operators and interests are more evenly dispersed than those of mining and are represented in Sumatra, Java and Sulawesi, as can be seen in Figure 10.

Australian Oil and Gas Companies - Activities in Indonesia ***(August 30, 2001)***



Source: Department of Industry, Tourism and Resources, August 2001

Figure 10

The outlook of the oil and gas sector is much brighter than for the mining sector. This is because the sector remains under control of the central government and because the range of issues is not as broad or as damaging to effective operation. Industry concerns are mainly focussed on the implications of newly-passed legislation which creates a less favourable investment climate than existed previously. These concerns include:

- taxation arrangements;
- the establishment of an executive body (BALAK);
- the obligation of investors to supply gas to the domestic market;
- the status of existing contracts; and
- the licensing of operations.

Opportunities exist for Australian suppliers of equipment to the oil and gas industry, particularly in niche products, fabrication and a range of services including training.

7.8 Services

The opportunities for Australian companies for the provision of services to Indonesia are significant as the market is expanding rapidly. Total services trade between Australia and Indonesia was valued at A$1.39 billion in 2000.[17] Australia enjoyed a surplus of A$290 million.

Indonesia has less financial flexibility than its neighbours because of low international investor confidence, high government and corporate debt, and an uncertain relationship with the International Monetary Fund, the Asian Development Bank, World Bank, Consultative Group on Indonesia and Australian Aid (AusAID) lenders. These factors exacerbate the problems of an already feeble banking sector. Banks crippled by the economic crisis were recapitalised through the issue of government bonds totalling about US$ 65 billion, and the Indonesian Bank Restructuring Agency (IBRA) took over the banks' non-performing loans. The bonds were both fixed interest and variable interest. For a time the prevailing interest rates caused significant negative spread difficulties for these banks but, in recent times, their bond holdings have been profitable. The key current issue is that the banks have an extremely low loan to asset ratio, notwithstanding that IBRA has recently permitted them to buy back some of their non-performing loans (at a discount). Further loan defaults would simply add to the woes of the banking sector.

Opportunities for Australian service providers lie in the areas of: Planning; Contract Negotiation and other Legal Advice; Systems Application; Systems Integration; Network Integration, Management Systems and; Training and Marketing are all highly prospective.

These opportunities exist across a range of industry portfolios, including Telecommunications, Banking and Finance, Health and Government Services (capacity building/corporate governance) should be targeted as priority sectors.

The provision of subcontract ICT services may provide a low risk approach to the market.

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[17] DFAT Statistics, October 2002

7.8.1 Financial Services

Indonesia faces an enormous task to revive its banking system, restructure corporate debt, rebuild its capital markets and reform its financial and legal infrastructure. Reviving the banking sector system requires massive recapitalisation, NPL resolution, retrieval of central bank loans to private banks, and state bank restructuring. Success is critical to Indonesia's ability to regain strong economic growth and attract foreign investors, including foreign financial institutions.[18]

Of the 160 private banks operating before the crisis, over 60 were closed; 12 were taken over by the government; and eight were deemed capable of joint recapitalisation by the government and the owners.[19] Some experts suggest that around 98 banks may survive, of which 20 will be wholly or majority owned by the government. Most of the closed banks' liabilities were transferred to state banks, while their assets were transferred to the government-owned IBRA.[20]

IBRA was successful in conducting the sale of Bank Central Asia in 2002. However, the sales process was regarded by the local industry as lacking transparency and market commentators expressed concerns of insider trading. The government twice this year deferred the proposed sale of Bank Niaga (another re-capitalised bank) because bid prices were lower than expected. Australia's ANZ Bank was initially interested in Bank Niaga but has since withdrawn its offer. Contract negotiations with a Malaysian investor are now well-advanced.

Opportunities for Australian companies in the banking industry are wide and range from corporate/debt restructuring, the introduction of corporate governance (including IT systems) practices, and general consulting services to support IT, HR and other core parts of the business.

7.8.2 Insurance

With the advent of greater international participation, competition within Indonesia's insurance industry has become keener. The entry of world-class insurance companies from the U.S.A., Japan, the U.K. and Australia (MLC, CMG, etc) with their technology and capital has challenged local companies to raise performance.

Currently, there are 171 insurance companies, four reinsurance companies, and 137 supporting companies operating in Indonesia's insurance industry. A handful of these are state-owned or quasi-governmental bodies that service particular markets, such as civil servants.

The prospects for Indonesia's insurance industry are quite bright. Indonesia's population of 211 million, and a middle-class of 30 million, which represents the primary insurance market - has significant potential to grow. Marketplace reports suggest that this affluent group is already beginning to think about long-term financial security and the benefits of insurance. It is not surprising that foreign insurance companies view the market as encouraging.

[18] DFAT: Asia's Financial Markets – Capitalising on Reform, 1999
[19] World Bank, 1999
[20] DFAT: Asia's Financial Markets – capitalising on Reform, 1999

7.8.3 Legal Services

Four judicial systems operate in Indonesia: These are the state administrative system; the general system which deals with standard civil and criminal law matters; the military system and the Islamic system of personal status law.

The general legal system has a strong Dutch influence. Indonesia has a three-tiered system comprising the District Court, High Court and Supreme Court. The courts also work on a regional basis and rights of audience in one court do not automatically confer rights of audience elsewhere. There are separate branches of the District Court that deal with specific cases, such as the Commercial Court which deals with bankruptcy.

The Indonesian legal profession is fused. Lawyers must qualify as advocates, which entitles them to rights of audience and to advise on domestic law following a period of academic and vocational training. Foreign lawyers do not have rights of audience.[21]

There are approximately 25-30 Australian lawyers working in Indonesia, in Australian and international firms. There are five Australian legal firms with an on-the-ground presence in Indonesia (via offices/affiliations etc.). These are Blake Dawson Waldron, Freehills, Minter Ellison, Deacons and Clayton UTZ. There are a number of other legal firms, which visit the market regularly and cover opportunities regionally from Singapore (such as Allens Arthur Robinson) or from Australia.

In terms of the export of legal services, the major opportunities for Australian companies are not in the traditional IPOs nor the restructuring of companies but are linked to direct investment by Australian firms in industry (mining and manufacturing dominate). The current investment climate, however, reduces the number of such opportunities.

The major issue impacting on Australian legal firms is that they struggle to compete with U.K. and U.S. firms. This is because, historically in business transactions, Indonesian companies and, in particular, joint venture companies have followed U.K. or U.S. legal practice.

7.8.4 Education and Training

Australia is now the preferred destination for overseas study by Indonesians. In 2000, there were 17,890 Indonesian students in Australia, accounting for 12 per cent of all foreign students in Australia. Around 43 per cent of students enrolled for degree and diploma courses undertaking business studies, while the remainder (57 per cent) accounted for business, administration, economics and other various programs.

Australia is the number one educational provider to Indonesia. It has a long and established relationship with Indonesia and, while the relationship was originally aid-based, it has grown considerably over the past decade and is substantially based on normal fee paying arrangements. However, Australian aid is still important, particularly in the field of education in which Australia is the largest direct aid donor. Each year AusAID provides 360 scholarships to Indonesian students.

[21] International Centre for Commercial Law, October 2002

Studies undertaken by Indonesian students in Australia range from:

- short courses
- university degrees
- higher education
- vocational education
- school education
- English language courses

In June 2002 Austrade organised a *Study in Australia* exhibition in Jakarta as part of an Australian Education Week. *Study in Australia* was held in response to growing interest by Australian education institutions in the Indonesian market. The exhibition attracted 70 exhibitors and 4,820 visitors over the course of two days with 450 expected enrolments.

Another area of opportunity for Australian education providers is vocational training. This has become a major component of the government's increased focus on human resource development. It is seeking to upgrade its vocational schools and link them more closely with industry through its 'Link and Match' program that involves an apprenticeship scheme and other types of on-the-job training

The government-to-government relationship on education and training between Australia and Indonesia is an active one. In February 1999 the third Memoranda of Understanding (MOU) on Cooperation in Education and Training was signed. The MOU provides the framework for cooperation in various fields such as higher education, vocational education and training, school education, distance learning, special education and more.

Australia is working closely with Indonesia on a range of education projects designed to enhance the exchange of information and cooperation, particularly in the areas of policy development and management in a decentralised environment. The projects reflect mutual areas of priority, which also enable Australia to demonstrate its capability in education and training.

There are now more than 300 agreements between Australian and Indonesian institutions under which collaborative projects and staff/student exchanges occur. Joint ventures also include offshore provision of courses and services, aid projects involving upgrading of vocational education, university upgrade programs and many other interrelated activities. These collaboration and joint venture active ties follow a large-scale deregulation of the education industry back in 1999.

There are ranges of government and private institutions, which provide post-school vocational training. The challenge for this sector is to provide training and skills development that is flexible, responsive and relevant to the needs of industry.

In order to improve the quality, competitiveness, and competence of Indonesian human resources, the Indonesian Ministry of Education and Culture has announced a regulation to govern the program of joint venture/affiliation of foreign institutions with existing local institutions at the tertiary level. The regulation allows foreign institutions to form management contracts, twinning programs or joint ventures with Indonesian institutions. Graduate students will obtain degrees from both institutions. Degrees obtained by distance learning programs will not be recognised or accredited by the Indonesian Ministry of Education and Culture.

There is a strong demand for corporate training however, with most companies having limited budget (post the financial crisis) there has been a reduction in the use of overseas professional trainers commensurate with a reduction in training funds. Equally, there has been a shift to the delivery of training services in-country to reduce costs and to a train-the-trainer concept so that local companies can conduct their own training at reduced costs. Most companies also now prefer to use local service providers (which quote in Rupiahs as opposed to US dollars) which are affiliated with and/or accredited with international organisations. Opportunities for training exist across all industries with the petrochemical, IT and telecommunications, health services and hospitality and tourism being the most prospective.

With tougher USA visa laws and particularly if the rupiah is unable to maintain its current exchange rate, Australia should maintain its position as the pre-eminent destination for Indonesian students.

8.0 Impediments to Trade

Throughout the last decade or so the Indonesian government has maintained a long-term trade liberalisation program, with the implementation of annual deregulation packages based on gradual reductions in tariffs, conversion of non-tariff barriers into tariffs and decreasing restrictions on foreign investment. During 2000 and 2001 significant tariff reductions were implemented and, in January 2002, Indonesia fully implemented the final stages of its commitments under the ASEAN Free Trade Agreement on schedule. These existing policies of trade and investment liberalisation are reinforced by the economic reforms supported by the IMF since November 1997.

The stated aim of the program, which is intended to be complete in 2003, is for Indonesia to have a three-tier tariff rate structure (0%, 5% and 10%) except for categories regarded as sensitive, including automotive goods and alcohol.

However, in an apparent response to pressure from Indonesian industry interests, there has recently been some upward adjustment of tariffs on a number of import categories, including wheat flour, rice, sugar and steel.

A number of non-tariff barriers still remain, notwithstanding that, in agreement with the IMF, Indonesia has dismantled many since 1998. Evidence points to the exercise of anti-dumping measures, imposition of product standards and associated testing and stringent labelling requirements.

Standards testing and certification requirements for all imported food products, are seen by some foreign suppliers to be so demanding, or to infringe upon intellectual property rights that they operate effectively as non-tariff barriers. Similarly, a requirement introduced in January 2001, for all food products to bear a label written only in Bahasa Indonesia – and including no other language – is not cost-effective for producers, particularly those producing lower-volume products.

Quantitative limits are applied to imports of meat and poultry products and specific import licensing applies to several categories of imports, including salt, alcohol and distilled spirits, lubricants, and a number of chemicals and all explosives. An informal quota is applied to sugar. In all, about 140 tariff lines are subject to specific import licensing.

Indonesia is not a signatory to the WTO Government Procurement Agreement. This causes some difficulties and lack of transparency. Since 1999 government audits have uncovered numerous procurement irregularities but little corrective action has been taken, other than a government commitment to expand the audit process. Industry observers consider that these barriers have actually increased since the implementation of regional autonomy.

Non-tariff barriers are numerous in the services sector. For example, foreign law firms are not permitted to operate directly in the country. Any legal firm entering the market must establish a relationship with a local firm but the major local firms are already committed to partners. Thus, new entrants face a significant barrier to entry. Similarly, accounting firms and medical practitioners are not permitted to practise directly. In the financial services sector, major liberalisation has occurred since 1998 but a number of impediments remain, including prescribed proportions of foreign currency lending to particular sectors. For example, foreign or foreign-partnered finance companies are required to deposit a capital guarantee to the government that is double that of domestic firms and insurance policies can be issued only by a domestic or joint venture company.

Although there was further liberalisation in 2001, the "negative list" issued by the Investment Coordination Board prohibits foreign companies from participating in the trading sector (except for large-scale retailing), and the print, broadcast and film industries. Foreign entities must enter into a joint venture arrangement with local partners in order to participate in the seaport, power production, shipping, potable water production, atomic energy, medical services, telecommunications and commercial airline industries. Various conditions apply to a number of other industry sectors, including geographic location limitations, the requirement to establish a local commercial presence, limitations on equity levels, taxation discrimination, and local registration fees. In some areas, unclear regulation enables a high degree of bureaucratic discretion.

9.0 Indonesia's International Trade

Indonesia's export performance relies heavily on world energy prices. Any prolonged downturn in world oil prices would result in a sharp drop in exports and a marked domestic economic downturn. The global economic slowdown and a decline in world oil demand that led to a subsequent decline in oil prices, significantly impacted on Indonesia's trading performance during the year 2001 when oil prices slumped on one occasion to about US$16 per barrel but the average was about US20. This decline has recovered somewhat during 2000, as oil prices have risen to as much as $US30 per barrel, with an average of about US$28[22].

For real export performance and development, however, Indonesia has been very dependent on the performance of its manufacturing sector. This sector accounts for about 80% of non-oil and gas exports [23]. These categories include textiles and textile products, electrical goods, machinery, knitted apparel and footwear and manufactures of non-base metal.

Agricultural products remain important to the overall performance of the country, making a contribution to exports in 2001 of about 10%[24]. The principal commodities are wood, wood pulp and wood products, paper and paperboard, seafood, rubber, spices tea and coffee. Of particular concern for Indonesia is that labour disputes and costs are causing international footwear manufacturers to relocate, and its textile industry is becoming less competitive due to the industry's reliance on outdated capital equipment.

The Indonesian Ministry of Industry and Trade considers that uncompetitive freight costs, improper packing and slow delivery also negatively impact on Indonesia's export performance[25].

9.1 Main Trading Partners 2001

Indonesia is Australia's 8th most important import source, its 10th most important export destination and its 10th most important trading partner in terms of two-way trade.

Indonesia's export destinations are diverse, but its performance is highly dependent on the major developed country markets such as the USA, Japan, Singapore, South Korea and China. 59% of Indonesia's exports go to Asian destinations and 52% of its imports come from Asia. Europe is an important export destination with about a 15% share and Australia and the USA together account for a further 17%. [26]

[22] *The Wall Street Journal*, reported by Energy Information Administration, www.eia.doe.gov/emeu/international/prices.html#crude
[23] Mutakin, Firman & Amirudin Majid, *Indonesian Export Prospect in 2002*, Indonesian Ministry of Trade, 2002
[24] Interpreted from World Trade Atlas data
[25] Mutakin, Firman & Amirudin Majid, *ibid*
[26] Based on data from World Trade Atlas

Indonesia's Main Trading Partners

Rank	Country	Indonesia's Exports (USD)	Indonesia's Imports (USD)	Two-way Trade (USD)
1	Japan	13010	4689	17699
2	USA	7749	3207	10956
3	Singapore	5364	3147	8511
4	South Korea	3772	2209	5981
5	China	2200	1843	4043
6	Australia	1845	1814	3659
7	Taiwan	2188	1071	3259
8	Malaysia	1779	1005	2784
9	Germany	1297	1301	2598
10	Thailand	1063	986	2049
11	UK	1383	643	2026
12	Netherlands	1498	344	1842
13	Hong Kong	1290	257	1547
14	India	1053	486	1539
15	Spain	903	178	1081
16	France	663	397	1060
17	Italy	621	407	1028
18	Belgium	762	212	974
19	UAE	756	174	930
20	Philippines	814	94	908

Table 3

Source: World Trade Atlas

10.0 Appendix

10.1 Examples of how Austrade assists Australian companies to win business in Indonesia

1. H T Barnes Food Processing Equipment

In early 2000 food processing equipment manufacturer, H T Barnes, became aware that others had exported some of the band saws that it had sold domestically, to Indonesia.

Curious about the opportunity to expand its business overseas, the company approached Austrade in Sydney seeking to explore the potential for its products in Indonesia. Austrade provided a market assessment which indicated that there was potential for H T Barnes' products in Indonesia. The Jakarta post recommended that the company undertake detailed market research to confirm the initial assessment, assess the scope of opportunity and identify the key factors on which H T Barnes could compete.

In May the company commissioned Austrade Jakarta research the market for its products and assess potential demand. The company also required Austrade to identify, qualify and describe the relative merits of a short-list of potential distributors.

Austrade Jakarta's identified the main area of opportunity for the company as the meat saw segment of the market and identified 8 potential distributors who were keen to discuss distribution arrangements with H T Barnes. A comprehensive description of the meat saw market segment enabled the company to understand the competitive dynamics in which it would need to position itself.

Subsequently, HT Barnes decided to visit the market. Austrade arranged and coordinated an appropriate visit program and, in January 2001 Austrade's Jakarta staff accompanied the company's representatives to 7 appointments with key users of meat band saws and a short list of potential distributors.

Following the visit, H T Barnes appointed one of the recommended distributors and this led, in February 2001, to an export sale of A$ 17,000.

In written confirmation of this outcome, H T Barnes considered that Austrade was a key factor in its export success.

2. Bristile Ltd

In August 2001 Bristile Ltd (Metro Bricks) requested Austrade Jakarta to assist them to enter the building and paving brick market within Indonesia. The post identified a niche market for *paving* bricks directed at shopping malls, and superior residential developments. Austrade recommended that the company should visit the market to meet with key property developers in order to gain a first-hand appreciation of the niche opportunity.

Bristile visited the market in October 2001 and Austrade staff accompanied the company representative on an extensive visit program in both Jakarta and Surabaya. While this confirmed the market potential it was apparent that pricing structures would demand a very specific customer targeting. A further visit program was programmed for the following year.

In April 2002 the company again sought Austrade's assistance to arrange and conduct a visit program for the company's export manager. On this occasion the primary focus was a major, top end of the market developer.

This introduction led to an agreement between Bristile and the local company in May valued at AUD$680,000. Bristile's export manager travelled again to Indonesia in June 2001 and asked for Austrade staff to accompany him to a further meeting with the local customer. This resulted in conclusion of the contract and the payment of a deposit of A$100,000.

At this time Austrade had identified a further small opportunity, and Bristile was introduced to that customer, who placed an order for paving bricks worth A$30,000.

By August 2002 the first customer was experiencing some difficulty in his property development which was threatening the complete consummation of the contract. Bristile asked Austrade to assist in resolving this difficulty and a further accompanied meeting with the customer then led to a successful renegotiation and re-scheduling of the contract.

It is interesting to observe that, during the visits to the development sites of these two developers, Austrade was able to identify a further 5 market opportunities not related to Bristile's product range, which have since been referred to other Australian suppliers.

3. Cochlear

Over a period of time about 25 Indonesian children had been fitted with the Nucleus Cochlear implants, in procedures carried out either in Australia or Singapore. These children require continuing post-implant therapy and implant adjustment. The parents of the children had formed an association (foundation) to assist in this process and Cochlear commenced technology transfer to a local hospital. The intent was to carry out the implant procedures in Indonesia but a few key activities were necessary such as appropriate government approvals, appointment of a local distributor and training of local professionals. In early 2001 Cochlear approached Austrade Jakarta for advice and assistance with both government approvals and the appointment of a local distributor.

In June 2001 Cochlear engaged Austrade to carry out market research and to identify and qualify a short list of appropriate distributors. The research report provided Cochlear with a roadmap for the journey it needed to undertake and Austrade was able to identify some well-qualified distributors. By January 2002, Cochlear was ready to appoint a distributor and, again with Austrade's assistance, met with a short short-list of companies, resulting in the appointment of a distributor that Cochlear considered to be ideal. Between February and July 2002 Austrade staff accompanied Cochlear representatives to meetings with potential distributors and program stakeholders, assisting the company to establish a sense of common purpose, particularly after the company appointed their preferred partner.

With all arrangements in place by July 2002, Cochlear commissioned Austrade to arrange its product launch at Pantai Indah Kapuk Hospital, Jakarta.

The Austrade representative, who accompanied Cochlear during the in-market visit, assisted with cultural barriers such as language difficulties and initiated contact with stakeholders prior to the distribution search. Cochlear have since commended Austrade for providing invaluable advice on cultural aspects of doing business in Indonesia and providing greater efficiency during the process.

4. Pure and Natural Juice

During 2000, Pure and Natural had used the services of Austrade Kuala Lumpur to successfully expand its business into Malaysia. Austrade recognised the potential of Pure and Natural Juice within South East Asia and referred the company to Austrade's Jakarta office. A company's representative visited Austrade Jakarta in October 2000 and was provided with a comprehensive verbal briefing about the Indonesian beverage market and recommended entry strategies.

On the basis of that advice Pure and Natural engaged the services of Austrade Jakarta to identify, qualify and short list key retailers and potential distributors, and arrange and coordinate an accompanied visit program for the company's General Manager in December 2000.

Pure and Natural continued a dialogue with all of the short-listed potential partners during the course of the next several months, including the dispatch and market evaluation of sample beverages. Austrade facilitated this process by acting as intermediary between Pure and Natural and the local companies and providing commentary to the company about the perceived market response to the samples.

Austrade again acted as the in-market intermediary between Pure and Natural and its preferred distributor during the process of obtaining an imported food registration number, which is required by the Indonesian Government for all imported foodstuff and beverages.

In April 2001 Pure and Natural appointed their distributor and in June the company acknowledged Austrade Jakarta as a key factor in their export success amounting to A$132,000.

5. Watt Exports

A supplier of fresh fruit and vegetables, Watt Exports sought the assistance of Austrade's Australian Operations group in Sydney, to establish whether or not there were opportunities for the company to export potatoes and onions.

Austrade staff in Australia asked the posts in a number of regional marketplaces to provide a preliminary assessment of the potential in their markets for Watt Export to compete.

Together with some broad information about the market prospects and advice about market entry strategies, Austrade Jakarta recommended that Watt Export commission research to identify and qualify a short-list of appropriate fruit and vegetable importers who were not already committed to competitors. Austrade carried out the research and provided a detailed report to Watt Export in June 2000.

On Austrade's recommendation the company entered into a dialogue with the short-listed companies, then sought Austrade's assistance to arrange and coordinate an accompanied visit program to meet with them.

These meetings, together with regular follow-up resulted in export sales of A$70,000 in 2000/01 and A$550,000 in 2001/02. Watt Export, in acknowledging Austrade Jakarta's contribution, stated that they could not have made the sales without Austrade. They attribute their success to "Austrade's assistance in finding an excellent business partner".