



eurocham



# EUROPEAN UNION INVESTMENT IN INDONESIA



## Content

01	Foreword Ministry of Trade of Republic of Indonesia
02	Foreword European Union
03	Foreword EuroCham
05	Strong and Mutually Beneficial Partnership
11	Towards a Comprehensive Economic Partnership Agreement - Vision Group recommendations
13	Benefits of the EU Investments
17	Recommendations
20	Conclusion
21	List of Contacts

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# Foreword

## Ministry of Trade of the Republic of Indonesia

Indonesia and the European Union have always been engaging a productive economic relation, which throughout 2007-2011 experiencing a steady growth with a surplus for Indonesia. The economic complementarities between the two parties are the main factors that shapes positive figure of Indonesia's trade relation with the European Union.

While the trade relation is growing, the investment relation between the two parties remains less than optimal. Although, the European Union became the second largest source of foreign direct investment for Indonesia in 2010, Indonesia only accounted for 1.6% of the European Union's total investment in Asia, and 8% of its total investment in ASEAN that same year. Thus, the potential for further investment cooperation is indeed substantial.

Fifteen years since severely affected by the Asian financial crisis, Indonesia has managed to re-emerge better than ever. Foreign investors are fond of the Indonesian economic growth story, without overlooking considerable challenges related to the country's infrastructure and condition for doing business, Indonesia's economic fundamentals have improved considerably, alongside with its political stability. This is evident from Indonesia's stable economic growth rate of around 6% for the past three years. These improvements, together with its considerable number of young active populations and the rise of its middle class are the main aspects that constitute Indonesia's potential.

Indonesia offers a significant opportunity for European investors; hence I encourage more European business communities to take a look at the opportunities that this South East Asian giant offers. Congratulations to the EuroCham for this excellent publication and looking forward to see a continuous relation with the EuroCham members in the near future.



Gita Wirjawan  
Minister of Trade  
Republic of Indonesia

# Foreword

## Delegation of the European Union

The European Union (EU) and Indonesia have enjoyed a close partnership for many years – in our political relations, economic ties and people-to-people links. The recent EuroCham study highlights one aspect which shows how investment from the EU makes a difference to the lives of people in Indonesia: 1.1 million Indonesians are employed by 1000 European firms who have – as of today – invested over USD 130 billion in this beautiful country.

This is good but could be better still, given the size and complementarity of our economies. President Yudhoyono and Presidents Van Rompuy and Barroso have signalled their commitment to expanding two-way trade and investment. The subsequent “Vision Group” – a diverse gathering of business people, government officials and academics – recommended starting negotiations on an EU-Indonesia Comprehensive Economic Partnership Agreement to achieve that goal.

As our economies are complementary, we have many opportunities for partnership. I am delighted that Europeans invest in sectors that add higher value and offer jobs in Indonesia. Let’s work together to identify further opportunities to strengthen trade and investment to promote prosperity in our countries.



H.E. Julian Wilson  
Head of the EU Delegation to Indonesia,  
Brunei Darussalam and ASEAN

# Foreword

## EuroCham

Today the relationship between the EU and Indonesia is at an all time high with strong and positive trade and investment relations, taking advantage of the complementing structures of the two economies.

From EuroCham's side we are proactively engaging in a result oriented dialogue with the Government of Indonesia. We appreciate that this partnership has brought closer cooperation between the EU and Indonesia in the dialogue on trade and investment issues, and we sincerely hope that our strengthened cooperation will lead to an even deeper public – private dialogue between the EU and the Government of Indonesia.

The attractiveness of Indonesia as an investment destination is indeed improving with investment level credit ratings up and record trade and investment numbers. This study shows that we can attribute large investments and benefits to the Indonesian society from European businesses. These investments are an excellent way for Indonesia to improve infrastructure, build capacity and skills and move up the value chain. The surge in visits of numerous senior European company representatives underlines that Indonesia is a priority country for European businesses, and our role is to make the investors feel welcome and, make sure that they operate in a business friendly environment.

At EuroCham we have a long term view of improving the investment climate and operating environment jointly with the Government of Indonesia. Showing the strength of the EU investments in the country adds extra strength to our voice. We firmly believe that both Indonesia and the EU stand to gain from the stronger economic relations and EuroCham is here to support.



Jakob Friis Sorensen  
Chairman of EuroCham



**Picture:**  
Courtesy of Jebson, and Jessen



**Picture:** Courtesy of Siemens



**Picture:** Courtesy of Clariant

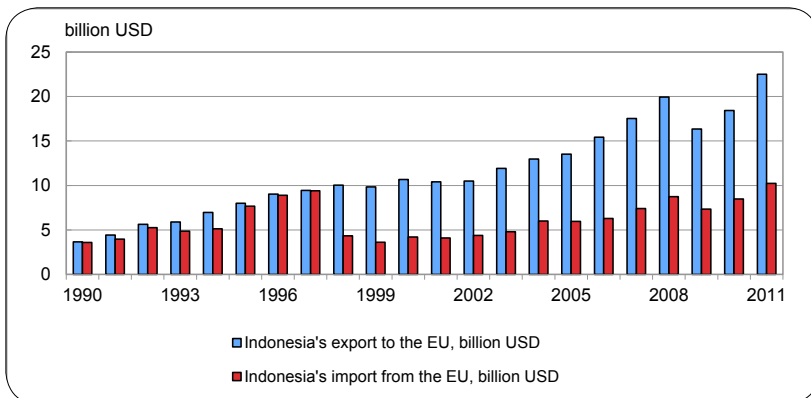


## Strong and mutually beneficial partnership

Indonesia and the EU already have substantial and mutually beneficial economic relations thanks to the nature of their complementary economies. **The EU is Indonesia's third largest export market and for many years has been its second largest source of investment. Indonesia enjoys a sizeable trade surplus with the EU.**

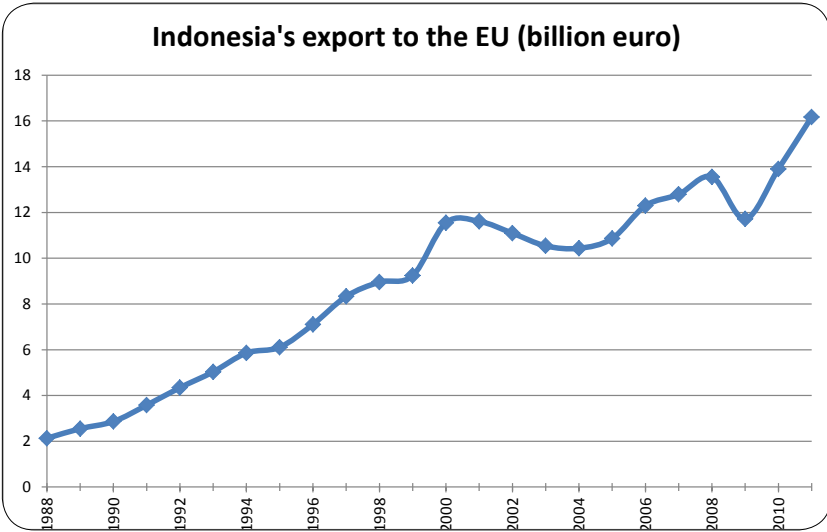
**Trade flows between Indonesia and the EU complement each other.** Indonesia exports to the EU are mostly agricultural products, minerals, textiles, and (semi-) manufactured goods. EU exports to Indonesia are mainly high-tech machinery, transport equipment, manufactured goods, and chemicals. EU products are important for the development of the Indonesian infrastructure and upstream industry and for consumer demand.

**Figure 1.** Trade Flows between the EU and Indonesia in 1990-2011 (in USD billion)



Source: Eurostat

Over the last two decades EU-Indonesia trade and investment flows have grown significantly. Total trade has increased from USD 7.6 billion in 1990 to USD 22.3 billion in 2011. The export of goods from Indonesia to the EU has increased 8-fold in the last decade.



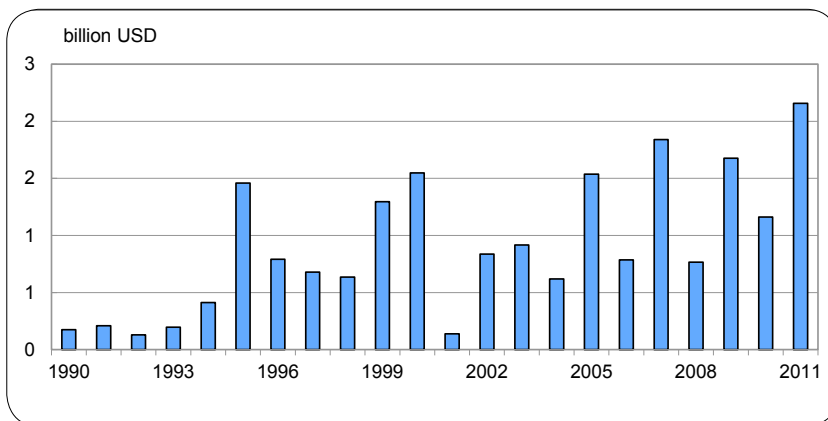
Source: Eurostat





In addition, the EU is one of Indonesia's main foreign investors. In 1990-2011, FDI from the EU to Indonesia amounted to USD 20.0 billion (Source: Indonesia Investment Coordinating Board; excluding upstream oil & gas, and banking).

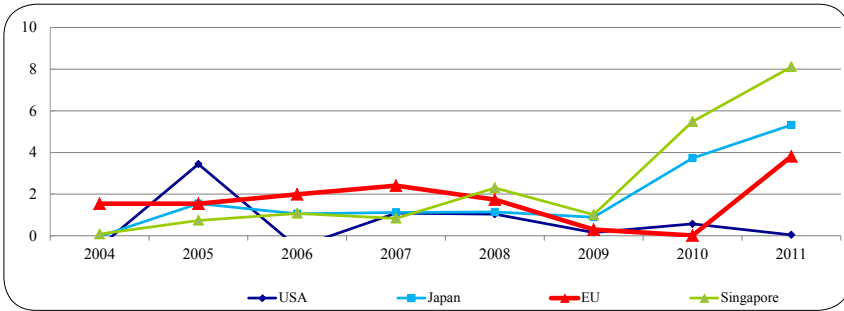
**Figure 2.** FDI Realization from EU to Indonesia: 1990-2011 (in USD billion)



Source: Indonesia Investment Coordinating Board/BKPM (data excludes upstream oil & gas, banking)

Taking a long-term view, according to data from the Indonesian Central Bank, the EU is Indonesia's third largest investor. Investment flows from the EU have substantially increased during recent years: from USD 1.5 billion in 2004 to USD 3.8 billion in 2011.

**Figure 3.** Direct Investment Flows to Indonesia in 2004-2011 (in USD billion)

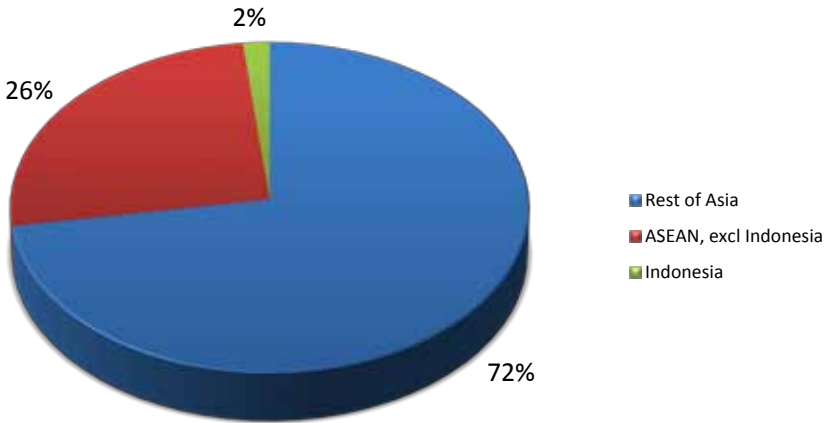


**Source:** Indonesian Central Bank

**Even during the economic and financial crisis in the EU, trade and investment between the EU and Indonesia continues to grow.** During the first quarter of 2012 FDI from the EU to Indonesia amounted USD 690 million (Indonesia Investment Coordinating Board/BKPM).

**However, compared to EU's trade and investment in Asia and the rest of South-East Asia, there is still scope and opportunity to further both partners' economic development.** In 2011 Indonesia ranked as the EU's 29th trading partner (Source: Eurostat). Nevertheless, the majority of EU's outward FDI to Asia goes to Hong Kong, Japan, India and Singapore. In 2004-2010 Indonesia received only 2% of EU investments to Asia and 6% of those to ASEAN.

**Figure 4.** FDI flows from the EU to Asia in 2004-2010 (%)



**Source:** Eurostat

Using the Indonesian Central Bank data, **the study estimates that the total amount of FDI from the EU to Indonesia during the period 1945-2011 amounted to USD 130 billion.**

However, this amount could even be higher due to investments made through European affiliates based in Singapore. This assumption is supported by the evidence from SingStat data that shows the EU FDI to Singapore has dramatically increased since 2006, around the same time that FDI from Singapore to Indonesia also rapidly grew.

The potential for expansion is substantial: The EU-Indonesia economic relations exhibit a complementary nature and offer very good opportunities for both sides, especially considering the high value-added sectors that European investors are interested in. It is for this reason that the 'Vision Group' recommended a **Comprehensive Economic Partnership Agreement.**



Picture: Courtesy of Danone Aqua



Picture: Courtesy of L'oreal



Picture: Courtesy of Danone Aqua



Picture: Courtesy of L'oreal

## **Towards a Comprehensive Economic Partnership Agreement – Vision Group recommendations**

**The Vision Group, set up by President Susilo Bambang Yudhoyono and European Commission President José Manuel Barroso recommended the conclusion of an ambitious bilateral agreement between Indonesia and the EU.** This Comprehensive Economic Partnership Agreement should be based on a free trade area and have a triangular architecture: market access, capacity building and facilitation of trade and investment.

In terms of market access, the agreement would imply liberalisation in goods, services and direct investment, complemented by a range of sanitary and technical regulations based on internationally accepted requirements or standards where feasible. It should also include commitments on intellectual property rights protection and competition policy.

**The Vision Group came to the conclusion that investment between the EU and Indonesia could significantly expand.** Easy gains could be made, if issues such as FDI limits, protection, IPR enforcement, regulatory consistency, infrastructure, tax policy & local content requirements were effectively tackled.

**A deep and invigorated economic relationship with the EU would generate major economic benefits**, quickly increasing over time with the shift to higher value-added production and incoming direct investments. Indonesia and the EU are complementary economies, which means that direct competitive rivalry in markets where Indonesian domestic firms are active, will be rare or absent.

Moreover, the Vision Group recommended that as a guiding principle, due consideration should be given to the different levels of development of the two partners.

#### **Benefits of a Comprehensive Economic Partnership Agreement**

- Additional exports of USD 9.8 billion
- Projected increase of Indonesia's trade surplus with the EU by USD 2 billion
- More high value-added and sustainable investments
- More jobs and higher salaries
- Poverty reduction
- Diversified trading partners

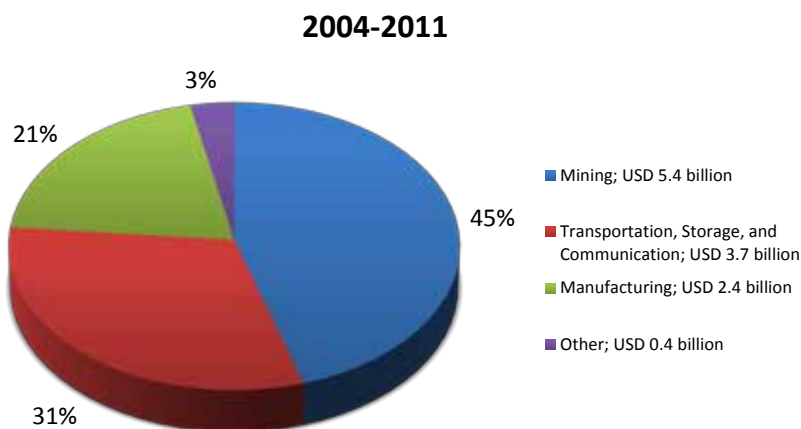
Some of the specific findings of this study regarding European investments are in line with the conclusions of the Vision Group.



## EU investors add value and create jobs

The EU invests in sectors with higher value-added. EU investment in Indonesia is mostly allocated to mining, infrastructure and manufacturing, especially chemical and pharmaceutical, and food industries, which have benefitted from European modern technologies and know-how.

**Figure 5.** Net Direct Investment Flows from the EU to Indonesia by sectors in 2004-2011 (in USD billion)



**Source:** Indonesian Central Bank

**Table 1.** Top 10 sectors of FDI from the EU to Indonesia in 1990-2011

No	FDI from the EU to Indonesia (1990-2011)	USD million	Share
	<b>Total</b>	<b>19961</b>	<b>100%</b>
1	Transport, Storage & Communication	3996	20%
2	Chemical & Pharmaceutical Industry	3475	17%
3	Food industry	2616	13%
4	Hotels & Restaurants	1289	6%
5	Metal, Machinery & Electronic Industry	1143	6%
6	Paper & Printing industry	1142	6%
7	Construction	1035	5%
8	Food Crops & Plantation	871	4%
9	Trade & Repair	743	4%
10	Mining	671	3%

**Source:** Indonesia Investment Coordinating Board (data excludes upstream oil & gas, banking)

78% of the FDI from the EU was invested in Java. However, the dominance of Java has been decreasing since 2007 as FDI to other islands, particularly Bali, Sumatra and Kalimantan, has continued to grow.



**Picture:** Courtesy of Mazars

## **Benefits the EU investments have brought include:**

### **(a) Technology Transfer and Higher Value Added**

FDI from the EU has brought with it technological spill-over as European companies routinely use the most modern technology available in the world. For example, a company in Bandung formed a partnership with Airbus and now produces locally in Indonesia the struts that bind the wings of the Airbus A380 to the fuselage.

### **(b) Labour Absorption and Human Capital Development**

**There are around 1000 EU companies in Indonesia that employ 1.1 million people and thus support the livelihood of approximately 4.4 million Indonesians<sup>1</sup>.**

Furthermore, investment from the EU to Indonesia has also helped to develop Indonesia's human capital as European companies prioritise human capital development through different training programmes in Indonesia and abroad. For example, French cosmetics company L'Oréal has been supporting science and education in Indonesia through various Corporate Social Responsibility (CSR) programmes including the L'Oréal-UNESCO For Women In Science, L'Oréal Girls Science Camp, and the L'Oréal Science Discovery Lab. L'Oréal Indonesia's employees are also voluntarily participating in various initiatives such as tree-planting and blood donor programmes.

<sup>1</sup>Assuming one household consists of four family members

Another example, Irish brewery Guinness Indonesia's Arthur Guinness Fund has provided GBP 230,000 of funding to identify and provide incentives for social entrepreneurs with the skills and support required to deliver measurable, transformational change to communities around the world: doing good business by doing good.

**(c) Development of Local Markets**

As a result of foreign competition, the domestic market enjoys higher productivity, more efficient resource allocation, lower prices, and greater choice for consumers.

**(d) Environmental and Social Benefits**

**European companies spent USD 500 million on CSR programmes in 2011 alone.** The EU is one of the world leaders in green initiatives. For example, a German engineering, manufacturing and distribution company Jepsen & Jessen (SEA) participates in a global footprint-measuring scheme, providing a structure for monitoring and reporting. Subsequently, the Group implements initiatives to reduce emissions and ultimately, invests in offsetting projects to achieve carbon neutrality.



**Picture:** Courtesy of EnviroSolutions & Consulting

**To make the most out of the opportunities offered by Foreign Direct Investment from the European Union and to increase these impressive numbers even further, EuroCham recommends the following:**



### **Strengthening EU-Indonesia Economic Cooperation**

In order to further support FDI from the EU, the completion of an EU-Indonesia Comprehensive Economic Partnership Agreement is recommended. It is believed that such an agreement would benefit both the EU and Indonesia via stronger FDI flows; increased capacity building and trade facilitation to allow Indonesian business to shift towards more skill-intensive and knowledge-intensive production.

### **Improving Regulatory Framework**

Indonesia needs to improve its attractiveness by creating a more transparent, coherent and consistent regulatory environment. The consolidation of rule of law and further implementation of good governance are also recommended.

### **Lifting Limitations on Foreign Ownership**

For investors, all equity caps and joint venture requirements are considered as impediments. Therefore, a regular review of the Negative Investment List, with relaxation of investment caps in some sectors, is recommended as a means of attracting greater foreign investment to support Indonesian economic development.

### **Providing an Easier Licensing Process for Foreign Company Establishment**

European companies would also recommend simplifying the process of establishing a new company (including licensing).







## Conclusion

A large number of benefits are realised by investments from the EU, particularly in sectors that are relevant to strengthening Indonesia's economic development (such as manufacturing and infrastructure) as well as in terms of labour (over 1 million jobs). Therefore, EuroCham suggests that Indonesia and the EU ensure that an investment chapter is included in the upcoming talks on an EU-Indonesia Comprehensive Economic Partnership Agreement and that Indonesia increases its access to European investors who support the Indonesian economy. This way, the EU and Indonesia are indeed strengthening a unique partnership for prosperity.

## List of Contacts

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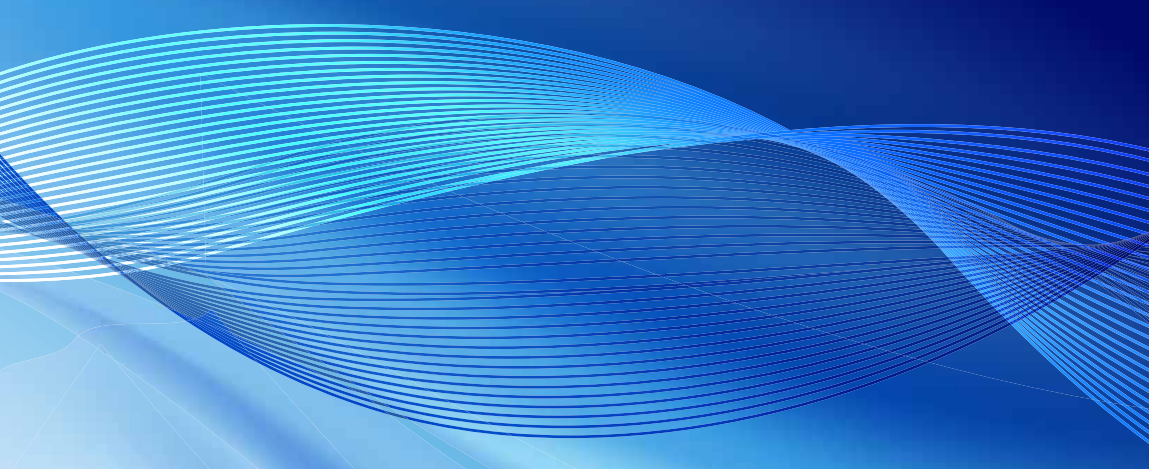
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