# EUROPEAN UNION
# TRADE AND INVESTMENT WITH INDONESIA
# 2018

# THE EUROPEAN UNION

**513** Million Citizens

**1** Single Market

**4** The free movement of People, Goods, Services and Capital

**28** Member States

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# MESSAGE FROM THE EU AMBASSADOR
## VINCENT GUÉREND

The EU and Indonesia are longstanding partners since they embrace similar values, chief among them an acute respect of diversity, enshrined in their respective mottos "In varietate Concordia" and "Bhinneka Tunggal Ika", or in English: "Unity in Diversity". The launch of the Indonesia – EU comprehensive economic partnership agreement negotiations in July 2016, however, signified a major attempt to upgrade the bilateral relationship. The EU is already among the most important investors in Indonesia and the country's third largest export destination for trade in goods. With such valuable existing economic relations, the agreement is expected to further cement the commercial ties of the two entities, resulting in prosperity, development, and growth for both parties.

The booklet provides our perspective on EU – Indonesia economic relations and the EU's contribution to the global economy. With more than €26 billion worth of goods traded in 2017, the EU stands as one of Indonesia's most valuable commercial partners. There is a lot more potential in trade in services, currently valued at 6 billion Euro. European companies have also shown increasing interest in investing Indonesia, proven by our FDI stock valued of almost 34 billion Euro in 2016.

I am delighted that EU companies put high importance on sustainability and have a strong social approach to their operations, particularly, investing in their employees. EU businesses also provide high-quality jobs for the Indonesian workforce, along with knowledge and technology transfer. Our deepening economic ties will provide important benefits for the future. European businesses are looking forward to boosting their significant investments in Indonesia, with an investment ecosystem that is transparent, open and accessible. Indonesia's efforts to facilitate the ease of doing business signals a commitment by the government to enhance the business climate. Indonesia can always count on the support of the EU regarding its structural reform agenda.

I hope this booklet will serve as a valuable reference and will help to understand the dynamics and growth potential of our commercial relations in order to deepen our already very fruitful cooperation.

# MESSAGE FROM THE EU COMMISSIONER FOR TRADE
## CECILIA MALMSTRÖM

Trade is a powerful tool for change and growth. It has built lasting partnerships and participation across borders, creating jobs and prosperity. Trade is not just about profit, goods and services. Through our policies we also promote the values and standards that Europeans have developed over time. Our leading role in global trade gives us the opportunity to set up the highest possible standards to support sustainable development, defend human rights and foster fair and ethical trade.

This is why we put forward "Trade for all", a guiding strategy for how our trade should work, that goes beyond economic considerations to promote freedom, awareness and responsibility. Given the recent rise in protectionism in many parts of the world, our work to remove trade barriers, in accordance with such principles, has become even more important. We need to strengthen ties with key partners around the world, such as the Association of Southeast Asian Nations (ASEAN).

Together with our trading partners, we will soon be able to reap the benefits of the free trade agreement we have signed with Singapore. The one with Vietnam is next in line. Indonesia, despite being a founding member and the largest economy of ASEAN, is only EU's 5th largest trading partner within the bloc. Needless to say, there is much room for growth.

For this reason, we launched negotiations for a comprehensive economic partnership agreement between the EU and Indonesia in July of 2016. We have managed to achieve steady progress and continued positive engagement from both sides throughout the on-going talks. The agreement will create the conditions for fair and more business-friendly relations to prosper among over 750 million people, and will become a key building block for a future comprehensive region-to-region agreement between the EU and ASEAN – our ultimate goal.

With the agreement with Indonesia, we aim to boost trade and investment by:

- scrapping tariffs and reducing other barriers to trade
- opening up trade in services and investment
- making it easier to bid for public contracts in each other's territories
- ensuring free and fair competition
- protecting intellectual property and
- promoting sustainable development.

We want business and consumers on both sides to tap the full potential of our enhanced partnership. This brochure is a first reference for businesses from Europe and Indonesia who want to seize the present and future opportunities of our respective markets.

# THE EU AS A GLOBAL ECONOMIC PLAYER

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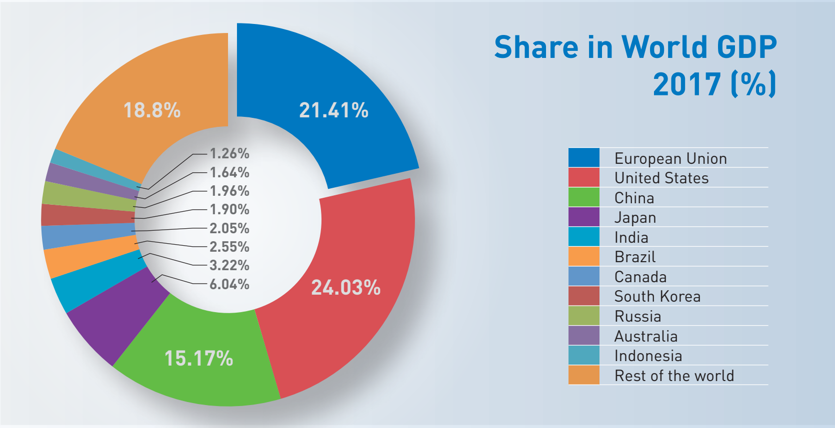
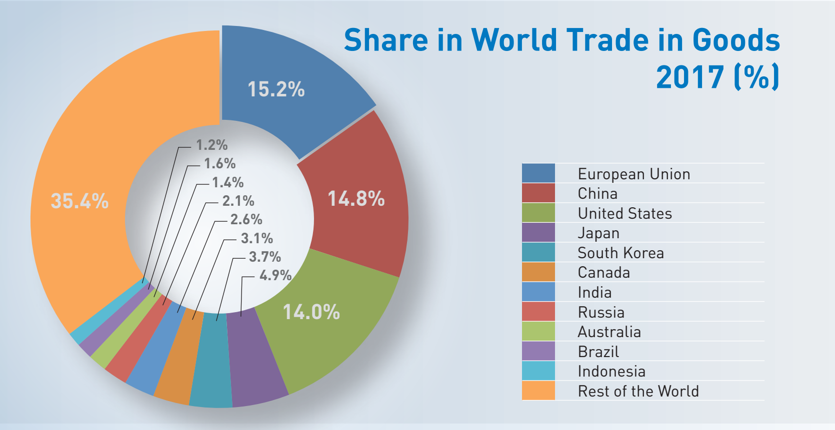
The EU is the only grouping of sovereign states that has managed to create an extensive customs union with common commercial policies. Throughout its 60 years of evolution, it has successfully developed a strong internal market as well as strengthened its global trading position. Indeed, EU, despite representing only 6.9% of the world's population, has been among the three largest global players for international trade in goods since 2004, together with China and the United States. In 2017, the EU's international trade in goods with the rest of the world (the sum of extra-EU exports and imports) accounted for €3,737 billion, representing, thanks to a 8% increase compared to 2016, the largest share (15.2%) of global trade in goods.

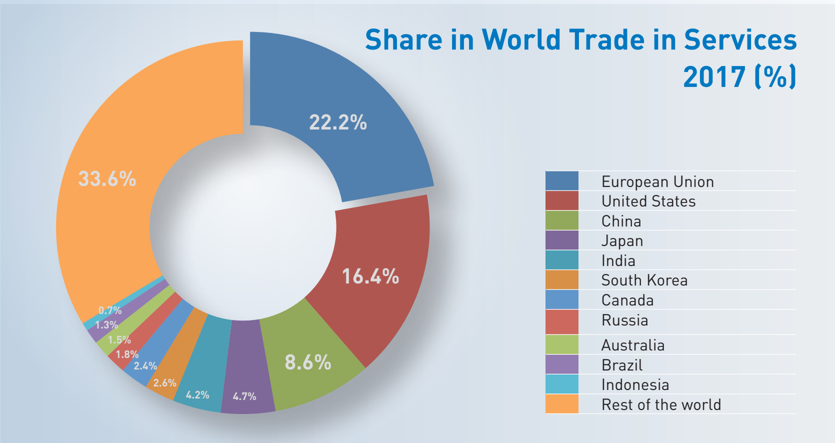
Services are also an increasingly important part of international trade and account for more than 65% of EU GDP and 70% employment. Technology has enabled companies to deliver their services globally, and manufacturing companies now increasingly buy, produce and trade services that allow them to sell their products. This intensifies the ways in which trade boosts the exchange of ideas, skills and innovation. EU trade policy facilitates this exchange and has contributed to double EU exports in services over the last 10 years. Services now make up almost 40% of the value of goods exported from Europe.






In 2017 EU exports of services with the rest of the world reached €883 billion, an increase of 47% since 2010 (€566 billion). EU imports of services grew even faster (50%), from €462 billion in 2010 to a total of €695 billion in 2017. With a 22.2% share, the EU remains the world's largest trader of commercial services, leaving the United States (16%), China (9%) and Japan (5%) behind.

Overall, the EU economy registered a trade surplus of €20 billion in global trade in goods, and a surplus of €188 billion in global trade in services in 2017. 25.6 million people were employed by EU firms, which are either directly or indirectly involved in the exports of goods and services.

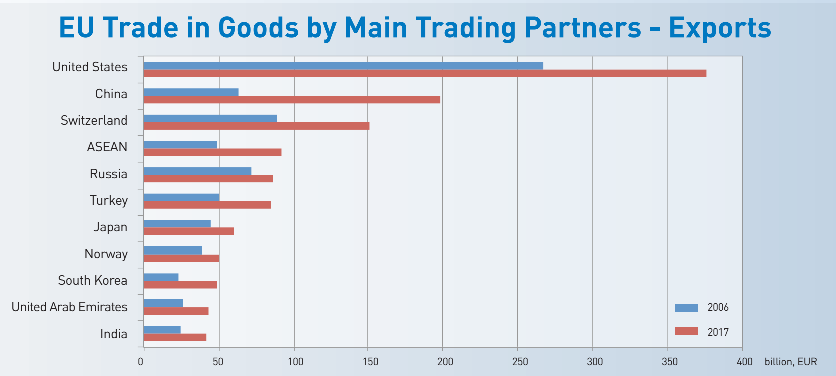


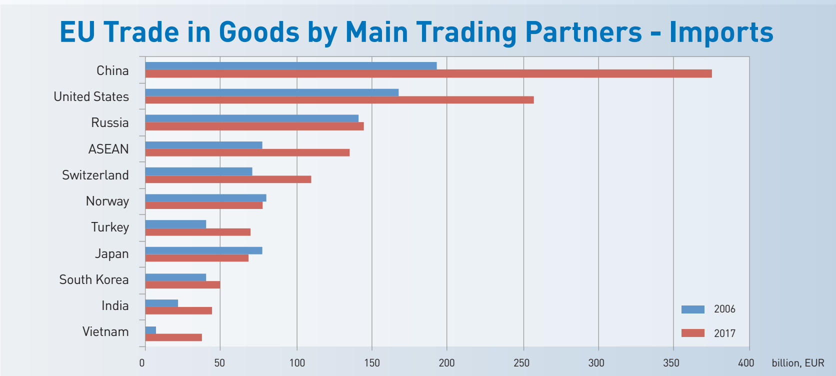
The main trading partners that engage in trade with the EU are the US, China, Switzerland, the ASEAN and Russia. While the largest share of EU goods is being exported to the US, China has recently emerged as the largest source of imports into the EU market.

In terms of FDI, according to the latest statistics in 2016, the EU is the world's leading investor (€7,598.7 billion of outward stocks), as well as the largest holder of FDI stocks (€6,268.2 billion of inward stocks).

## EU Trade Policy

Thanks to its extensive global economic clout, the EU holds important roles within international multilateral organizations such as the WTO, where it represents and speaks on behalf of the entire EU bloc. Furthermore, the need of retaining



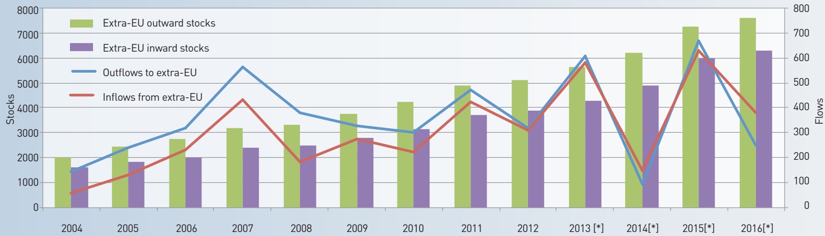



a principal role within the global trade environment drives the EU to improve existing bilateral trade agreements as well as to conclude new agreements. The EU is currently negotiating 21 separate trade agreements. Following the provisional application of the agreement between the EU and Canada (CETA), preparations will continue for the ratification of agreements negotiated with Singapore, Vietnam, and Armenia. The last two years also saw the application of agreements with Ukraine, Georgia, Moldova, Ecuador, Ghana, Côte d'Ivoire and the South African Development Community. These agreements are shown to create mutually beneficial outcomes, with major export increases from EU to, for example: Mexico (+416% since 2000), South Korea (+59% since 2011) and Serbia (+62% since 2013).

It is estimated that the upcoming decade will see up to 90% of global economic growth generated outside Europe. Therefore, it is of key importance that the EU taps into this growth potential by opening up new market opportunities for European businesses abroad. Protectionist barriers do hurt not just the EU economy, but also the one of the EU's partners, including the world's poorest countries. Removing trade barriers is thus essential if the EU is to continue to generate growth, and benefit all European and international citizens — as importers, exporters, workers, consumers and more. Undoubtedly, a great share of potential could be identified in rapidly-growing regions such as Southeast Asia. A gradual liberalization of markets with ASEAN, could improve the EU's trade and investment relations with its ASEAN partners and simultaneously propel economic growth in individual countries within the ASEAN region, including Indonesia.

## EU FDI Flows and Stocks with Rest of the World

(€ billion)



# THE EUROPEAN SINGLE MARKET

The European Single Market lies at the heart of the European integration project. Starting with the basic idea for the creation of a free trade area, the EU as of today has managed to develop an environment where people, goods, services and capital move freely. EU Member States jointly decided to remove a significant number of technical, legal and bureaucratic barriers in order to enable companies to expand their businesses across the EU market. As a result, a foreign company exporting to the EU needs only one entry point. This means reduced costs for the exporter, with the same import procedures everywhere and efficient one-stop access to the largest trading bloc in the world.  On the other side, European consumers have enjoyed a steady decrease of prices, as well as a wider range of available products. The membership of the European Single Market extends beyond the EU, as Iceland, Liechtenstein, Norway and Switzerland are also participating in the single market under negotiated frameworks.

## Did you know?

- The expansion of the Single Market resulted in a rise of consumers from 345 million people in 1992 to more than 510 million in 2017;
- 19 countries within the Single Market use the same currency, the Euro (EUR), which is the world's second most important currency;
- The EU is by far the world's largest host of FDI stock, accounting for more than €9,020 billion in 2016 (including intra-EU FDI). Also in terms of investments abroad, the EU ranked first in 2016, ahead of the US, as it generated over €248 billion of FDI outflows;
- Within the last 15 years, trade in goods between EU countries (intra-EU trade) has increased from €800 billion to €3,279 billion. As of today, it constitutes a share of 46.7% of the EU's total trade in goods;

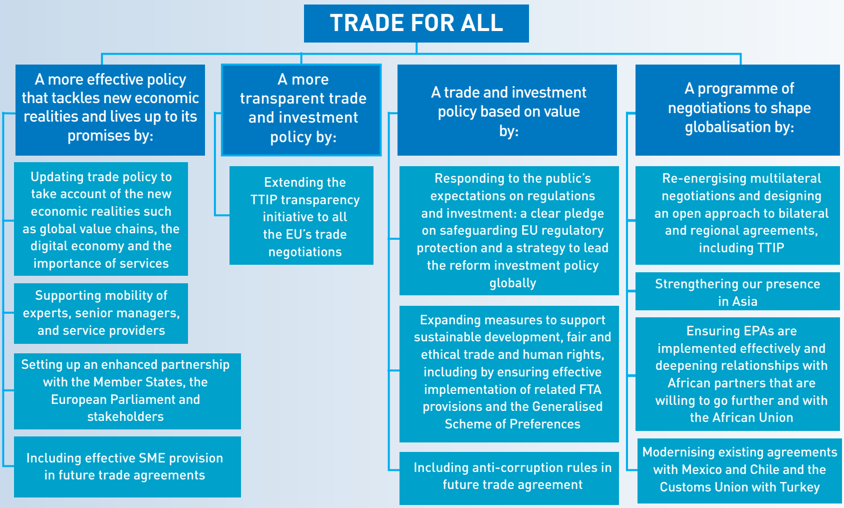
# TRADE FOR ALL

## The EU's Trade and Investment Strategy

The Trade for All Strategy: a new transparent and responsible strategy for trade and investment that aims to deliver on principal economic goals, such as growth and jobs, providing modern solutions for the realities of today's global trade.

Since then, the environment in which the EU conducts trade policy has changed considerably. At home, Europe saw an unprecedented public debate about the purpose and legitimacy of trade agreements, linked with renewed concerns about the effects of globalisation. In world trade, there is a real danger of a protectionist resurgence. An increasingly frequent use of domestic policies that damage other countries, even on part of the biggest economies, undermines the rules-based multilateral trading system.

In this environment, a trade policy that is effective based on the values and standards that Europeans have managed to develop over time, is needed more than ever before. The fundamentals of the Trade for All strategy thus continue to guide the EU's approach: openness combined with a level playing field, high standards of labour, environmental, consumer and social protection linked with the right policies at home.



# INDONESIA AS A WORLD PLAYER

# INDONESIA AS A WORLD PLAYER

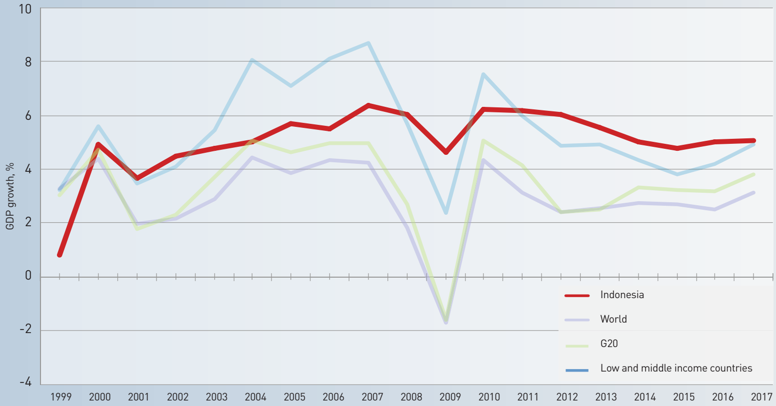
Indonesia is a member of the G20, a founding member and the largest economy of the ASEAN (Association of Southeast Asian Nations), accounting for 39% of the economic output of the regional organization. According to the latest World Bank data, the Indonesian economy was the world's 7th largest by purchasing power parity. Yet it is developing rapidly, Indonesia's economic growth of 5.1% in 2017 remains one of the highest among large emerging market economies.

Following the introduction of democracy and economic reforms in 1998, Indonesia has shown impressive and stable economic growth, and during the global financial crises it outperformed its regional neighbours and joined China and India as the only G20 members posting growth. While the economic growth has somewhat slowed down the last couple of years, there is tremendous untapped potential given a population of about 261 million people, a stable democratic political system and a strategic geographical position in the region.

Half the population is under the age of 30, so that the demographics support continued long term growth. The increase in the purchasing power of Indonesia's middle class has also spurred domestic demand for consumer products, such as automotive, food and beverages. According to a study by McKinsey (The Archipelago Economy: Unleashing Indonesia's potential, McKinsey Global Institute, 2012) and BAPPENAS' Indonesian vision 2045, in 2030 Indonesia could become the seventh largest economy in the world, with 145 million members of the consuming class and an estimated USD 1.8 trillion market opportunity in consumer services, agriculture, and education. In addition, Indonesia is rapidly becoming a digital nation where social media use is amongst the highest in the world (Jakarta is the most active city in terms of posted Tweets). In the country, there are 178 million unique mobile users and 120 million mobile-active social media users, representing a huge market for innovative digital products and e-commerce that has in fact registered a 22% growth in last year's value of sales.

According to the WTO, Indonesia was the 30th biggest exporter of goods in the world in 2016. It is the world's number one producer of palm oil, the world's largest exporter of thermal coal, and home to many other sought-after minerals, such as nickel, gold, copper and bauxite, as well as agricultural commodities like cocoa, coffee, and tea. Indonesia is also a prominent producer and exporter of

## Indonesia's GDP Growth after the Asian Financial Crisis

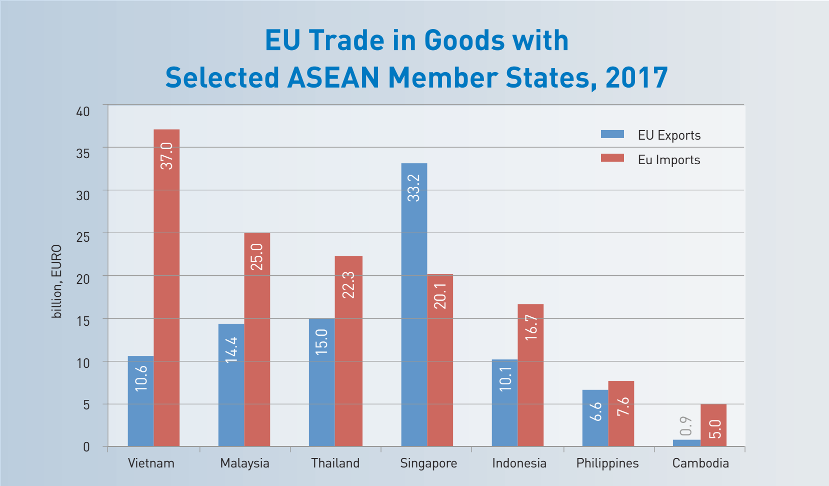


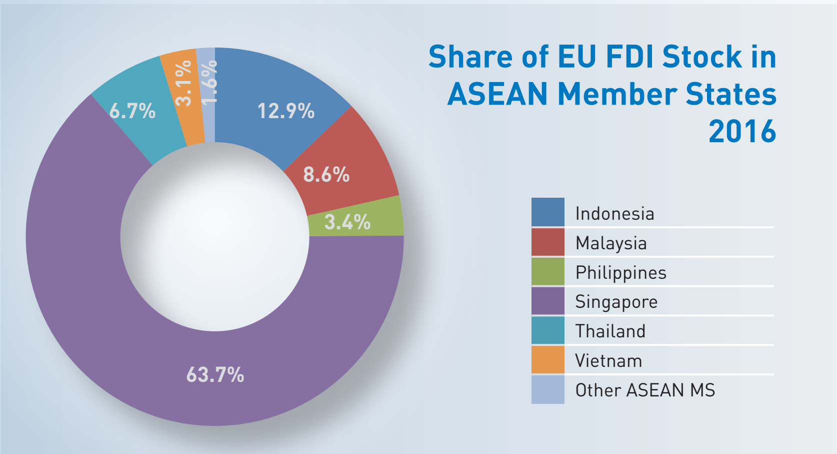

manufacturing goods such as textile and garments, footwear, rubber, electronics, motorcycles, wooden products, paper, and light machinery.

The international recognition of Indonesia as a key global player is also testified by the fact that it has hosted three important world events during 2018: the 18th Asian Games (the world's second-largest multi-sport event after the summer Olympics), the annual IMF-World Bank meeting and the 5th Our Ocean Conference. In particular the success in the organisation of the former, has led President Joko Widodo to announce Indonesia's plan to bid for the 2032 Olympic and Paralympic Games.


# INDONESIA IN ASEAN

ASEAN, as a whole, ranks as the 5th economy in the world and is the EU's 3rd largest trading partner outside European continent, after the United States and China. EU is ASEAN's second largest trade partner after China. Bilateral trade in goods between the EU and ASEAN reached €227.3 in 2017; while bilateral trade in services amounted to € 76.8 billion in 2016. To date, Indonesia is the EU's 5th largest trading partner within ASEAN, after Singapore, Vietnam, Malaysia and Thailand. While it was the second destination, after Singapore, for EU investments in the region, accounting for 33.9 billion (12.9% of the total EU FDI stock in the ASEAN). Considering that Indonesia is by far the largest economy in the region, trade and investment levels between the EU and Indonesia are well below the volume that could be expected, yet leaving much room for growth.


EU Trade in Goods with
Selected ASEAN Member States, 2017
billion, EURO
40
35
30
25
20
15
10
5
0
EU Exports
Eu Imports
10.6
37.0
14.4
25.0
15.0
22.3
33.2
20.1
10.1
16.7
6.6
7.6
0.9
5.0
Vietnam
Malaysia
Thailand
Singapore
Indonesia
Philippines
Cambodia


Share of EU FDI Stock in
ASEAN Member States
2016
12.9%
8.6%
3.4%
63.7%
6.7%
3.1%
1.6%
Indonesia
Malaysia
Philippines
Singapore
Thailand
Vietnam
Other ASEAN MS

# EU INDONESIA PARTNERSHIP

# EU-INDONESIA PARTNERSHIP

The rapidly developing EU-Indonesia relationship is extensive and important. A thriving economic partnership is paving the way for closer political relationship to the benefit of future generations of Indonesians and Europeans. Today it is a friendship that includes cooperation on education, climate change, emergency response, justice, trade and investment – all based on core shared values, interests and outlook on regional integration, multilateralism, democracy and human rights in open and tolerant societies and the environment.

Thanks to the opportunities opened up by the Partnership and Cooperation Agreement (PCA) signed in November 2009 and entering into force in May 2014, political, economic and sectorial co-operation has been strengthened across a wide range of policy fields, including trade, environment, energy, science and technology, good governance, as well as tourism and culture, migration, counter-terrorism, and the fight against corruption and organised crime. Indonesia is the first ASEAN partner to have signed such a partnership agreement with the EU.

A further step in bringing bilateral relations to a higher level was taken in July 2016 when the EU and Indonesia officially announced to start negotiations on a comprehensive economic partnership agreement. The negotiations have been progressing steadily: so far there have been 6 rounds, the last one held in Palembang in October 2018, with the 7th round foreseen in March 2019. The agreement has been posing the basis to enable the free flow of goods, services and investments, covering a total market of over 750 million people, while embracing sustainable development, intellectual property rights, fair competition, and economic cooperation between both sides.

In the recent development, the government of Indonesia and the European Investment Bank signed a Memorandum of Understanding (MoU) in October 2018. The MoU will promote key investments in green sectors that will increase the country's resilience to natural disasters in the medium and long term, and improve the lives of people in an immediate way. Areas of potential collaboration notably encompass: renewable energy, transport, lower carbon and efficient energy generation, forestry, waste and water management.

# TRADE IN GOODS

Total bilateral trade in goods between the EU and Indonesia reached €26.8 billion in 2017, with the EU exporting €10.1 billion worth of goods, while Indonesia's exports to the EU amounted to €16.7 billion. This makes the EU the 3rd largest exports destination for Indonesia with almost 10% share of total exports in 2017, just behind the US and China, but ahead of Japan and India. For the EU, Indonesia was the 23th largest import source and the 34th largest export destination in 2017. Germany is the main European trading partner for Indonesia in terms of total trade in goods, while the Netherlands remains traditionally the largest importer of Indonesian goods.

Trade flows between Indonesia and the EU complement each other. Indonesia's exports to the EU are predominantly represented by (semi) manufactured goods, minerals, textiles, and agricultural products. EU products are important for the development of the Indonesian infrastructure and upstream industry as well as for consumer demand. Over half of EU-Indonesia trade consists of intermediate goods. Around 40% of Indonesia's exports to the EU are made up by consumer goods.

# EU EXPORTS TO INDONESIA

In 2017 the EU's export basket to Indonesia was composed of 92.3% industrial products, 7.6% agricultural products and 0.1% fishery products. Machinery and appliances are the main EU export products accounting for 31.9% with an export value of €3.2 billion, followed by transport equipment (17.0% or €1.7 billion), products of the chemical or allied industries (13.1% or €1.3 billion), mineral products (4.6% or €464 million), optical and photographic instruments (4.4% or €449 million) and pulp wood, paper and paperboard (4.3% or €430 million). In the machinery sector, machinery and mechanical appliances, despite an 11.9% decrease compared to the levels of 2015, were still EU's main export item to Indonesia, accounting for €2.2 billion in 2017, followed by electrical machinery (€1.0 billion) that have instead registered a 26.6% increase in the last year.

Transport equipment exports were dominated by aircrafts and parts thereof, although versus the 2016, they decreased from €2 billion to €1.1 billion, with a halving of their weight on the EU total exports to Indonesia.

# INDONESIA'S EXPORTS TO THE EU

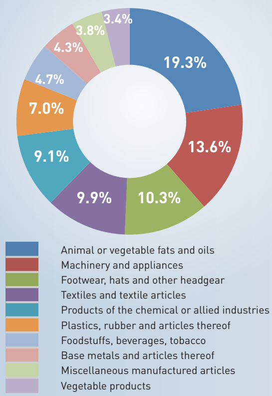
Indonesian exports to the EU in 2017 were composed of 66.4% industrial products, 31.7% agricultural products and 1.9% fishery products. Main Indonesian exports to the EU included animal or vegetable fats and oils (19.3% or €3.2 billion), machinery and appliances (13.6% or €2.2 billion), footwear, hats and other headwear (10.3% or €1.7 billion), textiles and textile articles (9.9% or €1.6 billion) and products of the chemical or allied industries (9.1% or €1.5 billion).

In the agricultural sector, palm oil confirmed as the main export products to the EU, with an annual increase of 27%, reaching the value of €2.5 billion, which accounts for 15% of Indonesia's total export value to the EU in 2017.

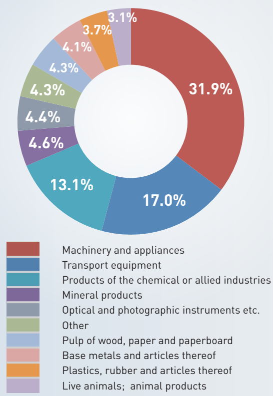
Electrical machinery and equipment (mainly consumer electronics) exports to the EU amounted to nearly €1.8 billion, the second most valuable Indonesian export to EU, thanks to an upward trend over the last six years.

Footwear exports registered a growth of 5% in the last 2 years, keeping their value stable around the 10% of the Indonesia total exports to EU. Exports of miscellaneous chemical more than doubled from the €366 million reached in 2015, being the 12th most important Indonesian export item to EU by value, to €814 million in 2017, corresponding to the 5th position.

### Indonesia's Top 10 Export Articles to the EU in 2017




### EU Top 10 Export Articles to Indonesia in 2017



# TRADE IN SERVICES


The global service sector is expanding rapidly and contributes more to economic growth and job creation worldwide than any other sector. Services play a crucial role for both developing as well as developed country economies. The service sector accounts for 75% of the GDP of the EU. Considering Indonesia, it contributes for the 45.4% of the national value added thanks to an average growth of 6.8% in the last 18 years, faster than the one by the industrial and agricultural sectors. It also accounts for 47.1% of total employment in Indonesia and 2 million new jobs were created in services in 2015 alone. Indonesia thus offers substantial potential of investments in the service sector.


Furthermore, Indonesia has a comparative advantage vis-à-vis the EU in labour-intensive services, such as tourism, transportation and construction and new export opportunities are emerging in communication, IT and business services.. As a result Indonesia's trade in services with the EU has increased during the last seven years. Its service exports to the EU amounted to €2.1 billion and imports from the EU reached €4 billion in 2016. Indonesia exported mostly services related to tourism and transport to the EU, while the EU mainly exported services in the field of business, IT and transport to Indonesia.

Despite the solid growth and strong relationship with EU, Indonesia's service sector experiences a shortage of supply in ten out of the twelve services sectors, most notably in the environmental and transport services. According to the World Bank, this shortage is mainly due to the level of restrictions in the sector. Similarly, this shortage is associated with relatively low level of productivity in the service sector and the overall economy since services are increasingly important as inputs to production. Increased openness to services is thus expected to benefit not only the service sector but also the Indonesian economy as a whole.

# FOREIGN DIRECT INVESTMENT (FDI)

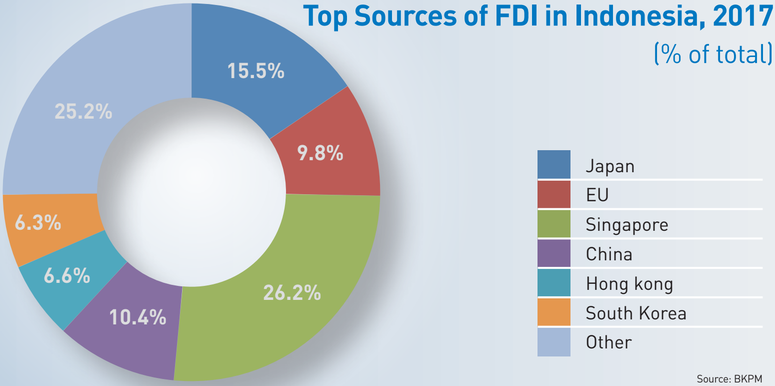
FDI from the EU to Indonesia has remained more or less stable in recent years. According to Eurostat, FDI stocks have tripled since 2005, reaching their highest historical level of €33.9 billion in 2016. The EU therefore remains in the top four sources of foreign investors and the leading non-Asian investor.

According to Indonesian Investment Coordinating Board (BKPM) data, the flow of realized European investments in Indonesia has also increased, with 2014 being a top year for European investments peaking USD 3.7 billion. The major increase in investments comes from Belgium, Germany, Luxembourg and Spain.

In detail, the tertiary sector has experienced an unprecedented boom with USD 1.4 billion of European investments in 2017 compared to USD 713 million in 2012. Similarly, the value of European investments in the primary sector has registered a 56% increase in four years, reaching USD 637 million in 2017. EU companies particularly invest in sectors with high value added products or activities as in manufacturing (especially chemicals and pharmaceuticals), paper and printing, infrastructure, and mining.

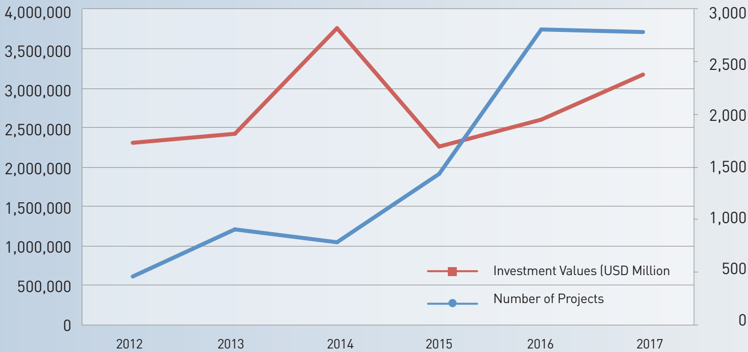
**FDI Stocks from the EU to Indonesia (2005 - 2016)**
(€ million)

## Top Sources of FDI in Indonesia, 2017
(% of total)




Source: BKPM

## European Investment Projects in Indonesia
Number of Projects and Value in USD million




Source: BKPM

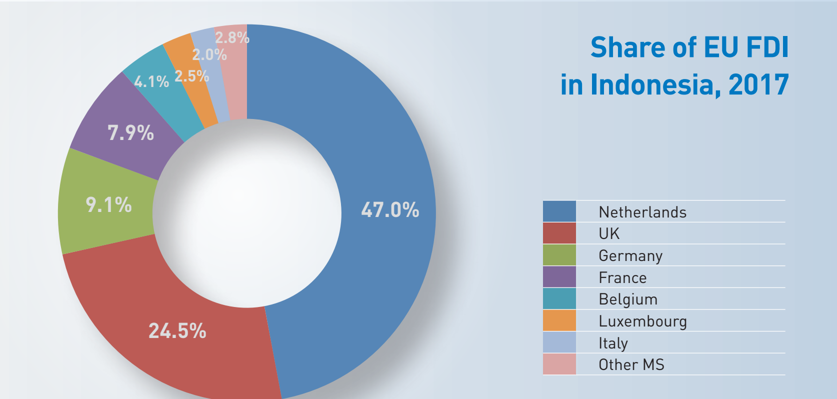
## Number of Projects and Investment Value of Top Investors in Indonesia (2017)

| Countries | Projects | Investment (USD million) |
|---|---|---|
| Singapore | 5,951 | 8,441.60 |
| Japan | 3,646 | 4,996.20 |
| China | 1,977 | 3,361.20 |
| EU | 2,789 | 3,167,24 |

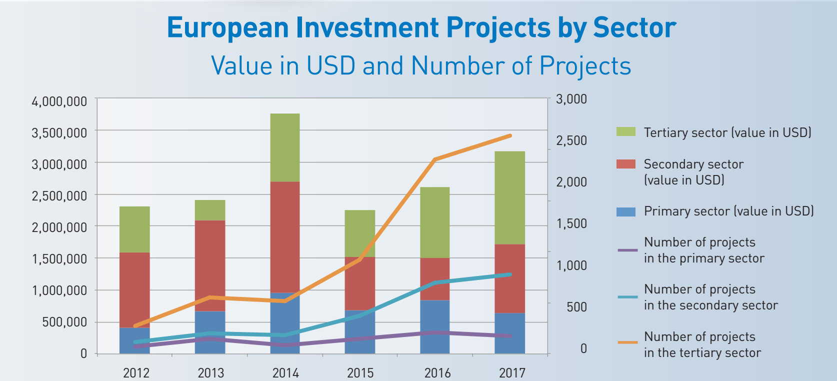
Source: BKPM

Another feature, the number of European investment projects has increased six times in four years only, from 457 in 2012 to 2,789 in 2017. The number of projects has increased the most in the tertiary sector (+690% since 2012), with the "electricity, gas and water" sector, the "hotel and restaurant" sector and the "real estate, industrial estate and business activities" sector having experienced the highest growth. The number of European investments in industrial projects has similarly increased from 116 in 2012 to 776 projects in 2017 while a +145% increase characterised the number of investments in projects for the primary sector.

On the other side, the 506% increase in the number of projects in the last 5 years, when compared to the +37% in the value of projects during the same period, seems to suggest EU companies' investments in Indonesia are becoming more short-term oriented and risk averse.




Source: BKPM




Source: BKPM

# EU INVESTMENTS HAVE BROUGHT SIGNIFICANT BENEFITS TO INDONESIA

**Technology Transfer and Higher Added Value.** FDI from the EU has brought technological spill overs, as European companies usually use the most modern technology available in the world.

**Labour Absorption and Human Capital Development.** Investment from the EU to Indonesia has also helped to develop human capital. European companies prioritise human capital development through different training programmes in Indonesia and abroad.

**Development of Local Markets.** As a result of foreign competition, the domestic Indonesian market enjoys higher productivity, more efficient resource allocation, lower prices, and wider choice for consumers.

**Environmental and Social Benefits.** European companies spent USD 500 million on global CSR initiatives in 2011 alone. In addition, the EU is one of the world leaders in green initiatives.

# RESULTS OF THE DOING BUSINESS SURVEY IN INDONESIA IN 2018

The Joint European Chambers' Business Confidence Index 2018 in general depicts the positive outlook on investments opportunities in Indonesia. The Business Confidence Index has improved for the first time in four years; with 62% of the respondent reported to have positive business outlook in Indonesia, an increase by 13 percentage points compared to the previous year. The sectors that are considered most attractive for European businesses are travel and tourism, followed by infrastructure and construction. Furthermore, 66% of the companies expect higher revenues, 55% project higher profits and 53% will hire more work forces.

In regards with the macroeconomic outlook, 48% have a positive outlook on investment climate, which is 5% higher than in 2017. In terms of geographical distribution in Indonesia, the investments are expected to be more evenly distributed among provinces, with business expansion mostly targeting East Java, Sumatra, and Kalimantan. In the next 12 months, East Java is projected to receive the greatest amount of investment of 50%, although the number is decreasing 3% from last year.

However, the 2018 data shows that only 29% of corporate respondents feel positively impacted by the government stimulus packages, a 4% decrease from last year. Respondents also noted that effective implementation and government coordination became the weakest points of the government policy recently. Other main problems include bureaucratic inefficiency, regulatory environment, corruption and lack of infrastructure. Among the business, there are also growing concerns toward political and social instability.

## SUMMARY

### BUSINESS OUTLOOK

- Business outlook has improved as compared to last year
- The outlook for Hospitality/Travel, Infrastructure and Food & Beverage is particularly positive
- Business expansion is targeting East Java, Sumatra and Kalimantan

### GOVERNMENT POLICY

- Opinion towards Government Policy & Regulations remains similar
- Perceptions of the Government Action remains positive
- Two thirds of the respondents remain unimpacted by the revamped economic stimulus packages

### FACTORS AFFECTING BUSINESS

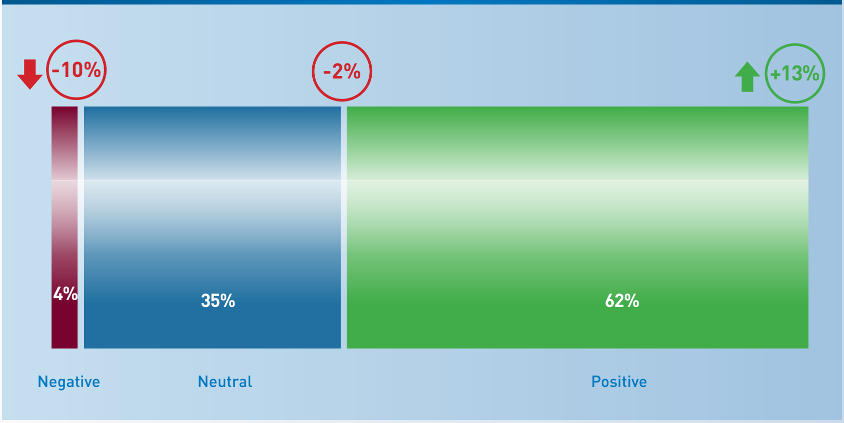
- While macroeconomic outlook still show positive trend, political environment remains a concern
- There is a rise in concern around political & social stability and main challenges remain bureaucratic inefficiency and regulatory Customs/ import regulations present a new chalenge

### BUSINESS CONFIDENCE INDEX

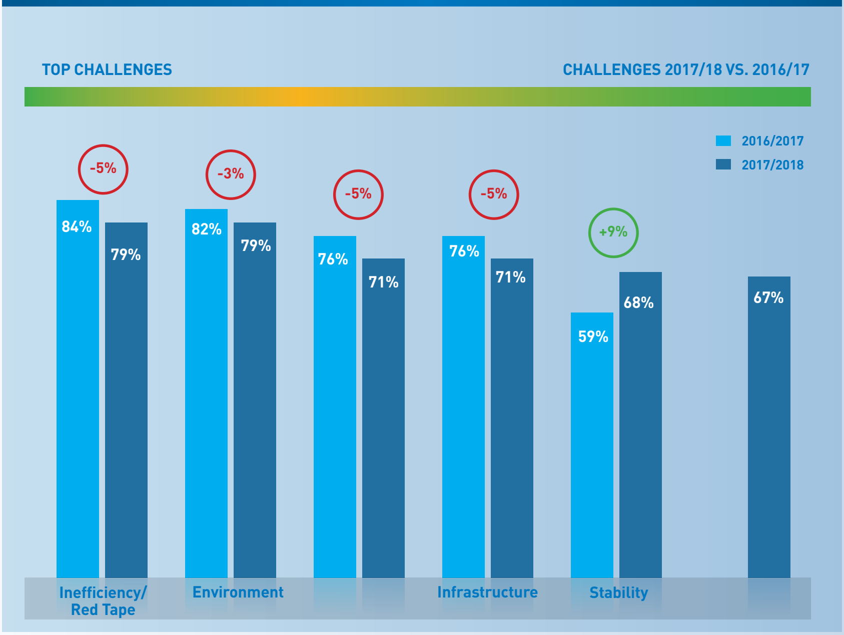
- Business Confidence Index has seen its first in the last 4 years

*Source: the Joint European Chambers Business Confidence Index 2018. Created and managed by BritCham, in collaboration with EuroCham and the EIBN.*

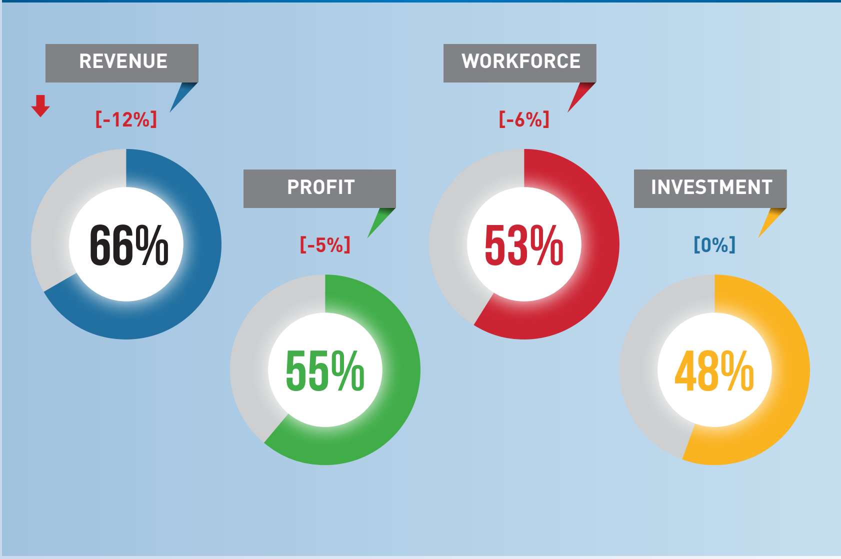
## RESPONDENTS ARE MORE POSITIVE TOWARDS THEIR BUSINESS OUTLOOK IN INDONESIA



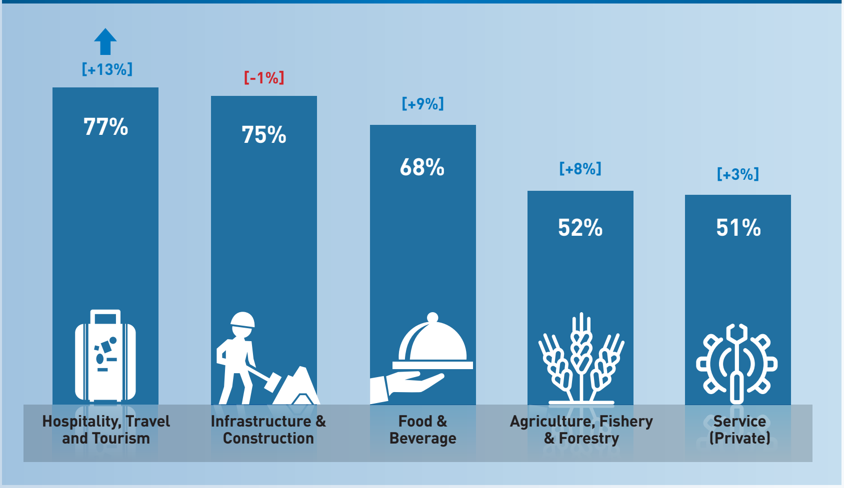

## HOWEVER, POLITICAL AND SOCIAL INSTABILITY IS A CAUSE OF INCREASING CONCERN



## THE MAJORITY OF RESPONDENTS CONTINUE TO EXPECT INCREASES IN REVENUE, PROFIT, AND WORKFORCE




## INCREASED POSITIVE OUTLOOK TOWARDS HOSPITALITY/ TRAVEL & TOURISM, F&B AND AGRICULTURE/ FISHERY & FORESTRY



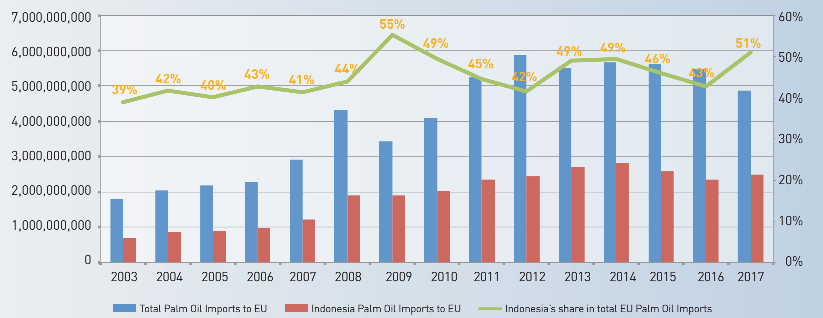
# MARKET AND INVESTMENT OPPORTUNITIES

## Indonesia: World's Largest Palm Oil Exporter


Palm oil is a key export commodity for Indonesia, accounting for more than 64% of the global output of palm oil (42 million tonnes, 2017). Indonesia is the world's largest producer of palm oil (+18% vs 2016), and major exporter of crude palm oil and its derivatives (31 million tonnes, 2017). The total plantation area reaches 14 million hectares, mostly belonging to private companies (55%), followed by local farmers and state-owned plantations. It is estimated that the palm oil sector provides direct employment to 5.5 million and indirect employment to 12 million people in Indonesia.

The EU continues to be an open and welcoming market for palm oil with imports in constant rise over the past decade. Indonesia has the largest share in EU total palm oil imports (49%). Around 86% of total imports of palm oil from Indonesia enter the EU with low duties (between 0-5%), 22% of them duty free. The EU is the second largest market for Indonesia's palm oil exports, just behind India. In 2017 EU imports of palm oil and its derivatives from Indonesia was valued at €2.5 billion, making it Indonesia's number one export commodity to the EU with a share of almost 15% of Indonesia's total export value to the EU.

### EU Palm Oil Imports from Indonesia



## Go Green: Powering Up the Country from Renewables

As Indonesia's CO2 emissions from energy use continue to increase (+ 5.5% in 2017) reaching 512 million tonnes, the Indonesian government has committed to a renewable power future, with a target of 23% by 2025 and 31% by 2050. To date, Indonesia has a total installed capacity of 62,000 MW, of which the 13.7% (8,500 MW) is coming from renewable sources.  Renewable energy consumption amounted to 2.9 million tonnes of oil equivalent in 2017, with an annual increase by 15.9%, much higher than the last 10-year average of 5.4%. Geothermal power capacity registered the major expansion (+306 MW), with 1924.5 MW or 2.7% of the total energy capacity. Geothermal energy contribution is targeted to reach 7.2 gigawatt by 2025. While after reaching its historical high in 2016, hydro decreased by 5% in 2017, with total 4,622 MW capacity or 7.4% of total energy capacity.

The geographical condition of Indonesia makes the country extremely suited for developing of solar energy. The International Renewable Energy Agency estimated the potential for solar PV in Indonesia is 53 GW (IRENA, 2017). The government is now actively intensifying efforts to develop geothermal energy as the nation is surrounded by many volcanos which give such abundant source. Urban waste and wind are also promising avenues of renewable energy. Other than that, the government is also exploring possibility of utilizing ocean waves to increase its energy capacity, shown with a partnership with Japanese government to create pilot project of ocean wave-based power plant in Indonesian ocean.

## E-economy: Big and Growing


Indonesia's e-commerce market is on track to be one of the largest in Asia. A 2016 study by tech giant Google and Singapore based investment company Temasek, revealed that e-commerce is by far the largest opportunity in Indonesia, with an annual projected growth rate of 39%. The study found that in 2015, 18 million Indonesians fell into the category of online buyers, and it is estimated that in 2025 Indonesia will represent 52% of all e-commerce activity in Southeast Asia.

An interesting feature of the Indonesian e-commerce market is the growth of mobile-first consumers. The vast majority of online-shoppers use their smartphones instead of a desktop computer, creating a unique opportunity for retailers to focus on utilizing the full potential of mobile functionality. In a country where half of the population still lives in rural areas, e-commerce allows consumers from rural and semi-rural areas to source hard-to-find goods.

These exceptional circumstances prove to be a breeding ground for innovative start-ups, and create opportunities for European investors. Indonesia is currently home to four unicorns and has a rapidly growing starts-up scene, in various sectors, ranging from marketplace, transportation, healthcare, education, financial services, tourism, and agriculture, among others.

## Growth in Indonesia's Civil Aviation Market

The Indonesian civil aviation market ranks among the fastest growing in the world. Domestic traffic in Indonesia has more than tripled over the past 12 years, from less than 30 million in 2005 to almost 97 million in 2017. The number of air passengers is projected to continue growing at annual average growth of 5.7%, while the volume of air cargo transportation is growing at 8.6% annually. According to the International Air Transport Association (IATA), Indonesia's aviation sector is poised to triple by 2036, reaching 355 million passengers per year, making Indonesia the 5th largest domestic aviation market globally. Indonesia's strong aviation sector growth, its strategic location, and its archipelagic make up create enormous potential for the transportation industry.

## Indonesia: World's Second Largest Exporter of Fishery Products

As the world's largest archipelago in the world, it is not surprising that the fisheries sector in Indonesia is a key sector for the country. With a combined marine capture and aquaculture production reaching 34 million tonnes a year, Indonesia accounts for 10% of world production, making it the world's second largest producing country after China. In 2017 the sector contributed 3% to Indonesia's GDP, and provided around 6 million jobs and a living for 2.6 million households.

The EU in return is increasingly dependent on imports of fishery products to meet its domestic consumption and is already the world's largest importer of fishery products, accounting for 25% of the world's imports and making it a particularly relevant market for the Indonesian fishing industry. Yet, there is still much space for growth, as in 2017 fisheries imports to the EU from Indonesia were valued at €191 million, which is around 1% of the total EU fisheries imports.

# EU BUSINESS PRESENCE IN INDONESIA

The EU has consistently been Indonesia's top non-Asian investor for years, with the flow of FDI amounting to over USD3 billion in 2017. EU FDI stock in the country continues to accumulate, reaching its highest historical level of €34 billion in 2016. EU companies invest in sectors with high value added products or activities, providing high quality jobs for Indonesians. An estimated 1,000 European companies directly employ ~1.1 million Indonesians. These companies bring cutting edge technologies, helping Indonesia to climb the value added chain. They also attach high importance to Corporate Social Responsibility (CSR) and encourage sustainable business practices supporting inclusive growth. Below are some examples of the presence and recent activities of EU companies in Indonesia:

## Michelin

Michelin's journey in Indonesia started on 2 April 2011, where the commercial office of PT Michelin Indonesia was officially opened in Jakarta. The occasion was a special experience not only for Michelin, but also for consumers, as it marked the beginning of better mobility in Indonesia. To achieve its objective, PT Michelin Indonesia always offers safest and highest quality products in tires for passenger car, light truck, truck & bus, motorcycle as well as tires for mining industry.

In 2013, Michelin Group and PT Petrokimia Butadiene Indonesia (a subsidiary of PT Chandra Asri Petrochemical Tbk), signed an agreement to create a joint venture company, PT Synthetic Rubber Indonesia (SRI). The construction of SRI was completed in August 2018 and the factory is the first in Indonesia to produce Polybutadiene Rubber and Solution Styrene Butadiene Rubber, both used as raw materials to produce environmentally friendly tires. The total investment for this project reached USD 435 million, with Michelin as a majority shareholder (55%).

## Diageo

Diageo established their domestic production in Indonesia in 2015 by producing global brand locally, including Smirnoff, Vodka, Captain Morgan, Smirnoff Ice, and Gilbey's. Being a consumer-centric and innovative company, Diageo's strength relies on the breath of their portfolio, understanding, and ability to anticipate and stay ahead of consumer trends – continually creating new products, categories, and experiences. They want consumers in Indonesia who choose to drink alcohol to trade-up to higher quality, better tasting drinks, switching away from illicit home-brew to a responsibly made, quality products. In addition, they enhance the local talents while promoting diversity and access to global opportunities. In 2018 DIAGEO introduced Diageo Bar Academy in Indonesia, a program to train bartenders to hone their skills. The training is expected to reach at least 900 bartenders in five cities: Surabaya, Medan, Yogyakarta, Jakarta and Bali.

## Signify

Indonesia was one of the first markets for Signify (formerly Philips Lighting) outside Europe. The company has been present in Indonesia for more than 120 years. Signify is the world leader in lighting for professionals and consumers and lighting for the Internet of Things. The company has recently participated in illuminating ten venues for Asian Games 2018. It has also installed more than

160,000 street lights in Jakarta, making it Southeast Asia's largest smart lighting infrastructure. Signify also engages with its social environment, one of which through 'Kampung Terang Hemat Energi' (KTHE/Bright Energy-Saving Villages) program. Introduced in in 2015 and continued in 2017-2018, the program focuses on bringing access to light for the undeserved living in off-grid or remote areas using various solar lighting products. Throughout these years, Signify has reached more than 30 villages and brightening the lives of more than 30,000 people in South Sulawesi, North Sumatra, East Bali, Central Kalimantan, and Maluku – covering the archipelago from west to east.

## Jawa Power

Jawa Power is one of the largest Independent Power Producer (IPP) in Indonesia in which Siemens owns 50% equity, with a 30-year power purchase agreement with PT. PLN (Persero), the state-owned electric utility company. PT Jawa Power owns "Paiton II" which is a 1,220MW coal-fired power station (2x610 MW) located at the Paiton Power Generation Complex, 140 km east of Surabaya in the district of Paiton, Probolinggo, East Java, Indonesia. The power station entered commercial operation in year 2000 and supplies electricity into the Java-Bali 500kV grid. Each unit is equipped with low NOx tangential burners, Electrostatic Precipitator (ESP) and Flue Gas Desulphurisation (FGD) which makes the plant one of the most environmentally friendly coal-fired power stations in the region. The Paiton II environmental performance has been acknowledged by the Indonesian Ministry of Living Environment & Forestry (KLHK) with the achievement of its tenth (10) Green awards this year and two (2) Gold Awards under the National Environmental Performance Rating Program (PROPER).

## Danone Aqua Indonesia

Danone in Indonesia is represented by two business categories: Waters and Specialized Nutrition (Early Life Nutrition and Advanced Medical Nutrition). Danone iconic brands in Indonesia comprises of AQUA, Mizone, VIT, Levite and Caaya from the Water business and SGM, Nutrilon and Bebelac from the Specialized Nutrition business. With over 15,000 employees and 24 factories, Danone in Indonesia is among market leaders in water and specialized nutrition industries. Danone AQUA is the biggest B-Corp certified company in Asia and pioneer in healthy hydration. With the increasing of unmanaged plastic waste across industry that has become a huge threat to the environment, Aqua has scaled up the recycling program with now having 6 (six) recycle business units across Java and Bali. Through these sites all kinds of plastic bottles are collected and recycled. During the 2018 Our Ocean Conference in Bali, the brand AQUA unveiled Indonesia first 100 percent recycled plastic bottle as part of its commitment to helping reduce plastic pollution in the archipelago.

## Tetra Pak Indonesia

Tetra Pak is the world's leading food processing and packaging solutions company. Since the start in 1951 Tetra Pak has taken pride in providing the best possible processing and packaging solutions for food. Working closely with our customers and suppliers, we provide safe, innovative and environmentally sound products that each day meet the needs of hundreds of millions of people in more than 170 countries. With more than 24,000 employees around the world, we believe in responsible industry leadership and a sustainable approach to business. Our motto, "PROTECTS WHAT'S GOOD™," reflects our vision to make food safe and available, everywhere. Tetra Pak has been developing Indonesia since 1975, partnering with local and multinational food and beverages manufacturers. In 2018, it launched the 100 Dropping Box program in cooperation with Waste4Changes and PRAISE to increase public awareness about waste sorting in Indonesia.

## Mercedes-Benz

In 1970, PT Star Motor Indonesia and PT German Motor Manufacturing, as the sole agent of Daimler-Benz AG and as the manufacturer and assembler of Daimler-Benz products respectively, were established in Indonesia. Located in Tanjung Priok, Mercedes-Benz started its commercial vehicles assembly first, and three years later, its passenger cars. Over the years, the company expanded and grew with the establishment of manufacturing plant in Wanaherang (Bogor), commencement of truck manufacturing, and attainment of ISO 9001 certification where at the time, it was the first manufacturer accredited in Indonesia. Officially named PT Mercedes-Benz Indonesia in 2008, it assembles 6 models of vehicle – the C-Class, E-Class, S-Class, GLE, and GLC, GLE, and GLS – locally in Wanaherang. Consistently focusing on environmental friendliness, efficiency, alluring design, comfort, and driving safety through cutting-edge technological innovations and sophistication, Mercedes-Benz Indonesia was awarded with Eco-Industry certification from TUV-Rheiland in 2009. Daimler has two other entities in Indonesia – PT Mercedes-Benz Distribution Indonesia and PT Daimler Commercial Vehicle Indonesia (recently established in 2018), which manage the distribution of its passenger vehicles and commercial vehicles respectively.

## BNP Paribas

In Asia Pacific, BNP Paribas is one of the best-positioned international financial institutions with an uninterrupted presence since 1860. Their existence in Indonesia started in 1970, and it is the only French bank with a fully licensed subsidiary bank in Indonesia today. Operating as a commercial bank, PT Bank BNP Paribas Indonesia provides a range of banking facilities for medium and large Indonesian and multinational companies. BNP Paribas also operates in the country through its asset management and securities services licenses via PT BNP Paribas Investment Partners and PT BNP Paribas Sekuritas Indonesia. Together with UN Environment, ADM Capital and World Agroforestry Center (ICRAF), BNP Paribas launched a partnership "The Tropical Landscapes Finance Facility" that announced on February its inaugural transaction: a landmark USD 95 million sustainability bond to help finance a sustainable natural rubber plantation in degraded land in two provinces in Indonesia.

## Air France KLM

Garuda Maintenance Facilities (GMF) and AFI KLM E&M concluded a strategic partnership agreement on 10 October 2018. The two world-class Maintenance, Repair & Overhaul (MRO) companies have agreed to collaborate to strengthen their position in the highly competitive aircraft maintenance industry.

This collaboration is designed to develop & improve quality systems and GMF capabilities and to strengthen the footprint of AFI KLM E&M in Asia. Through the strategic partnership the parties will explore synergies between the two organisations i.e. AFI KLM E&M will now be able to offer its own Asian customers repair close to home, they will no longer be obliged to fly to Europe for maintenance. GMF will gain access to know-how and will enjoy a much higher level of utilization.

# EU INDUSTRY AND ITS CONTRIBUTION TO THE CIRCULAR ECONOMY

If actual trends of resources utilization will continue, by 2050 the global use of materials will more than double and the annual resource use per capita will grow by 70%. Demand for food could increase by 60%, for fibre by 80–95%, and for water by 55%, overcoming the ceilings to the environmental strain that ecosystems can safely bear. Therefore the resources' use has to be separated from the concept of economic growth.

Circular economy provides one of the answers to this need by representing a new relationship between markets, customers and natural resources, and thus a new paradigm for the way our entire economy works. It aims to replace the current linear economy model (make, use, dispose), with a responsible consumption and production model (keep using resources for as long as possible, extract the maximum value from them, minimise the generation of waste) thanks to innovative new business models and disruptive technologies.

The transition to a more circular economy is an essential goal for the EU, part of the broader mission to develop a sustainable, low carbon, resource efficient and competitive economy. Furthermore, it is closely interlinked with reaching the Sustainable Development Goals (SDGs) by 2030, in particular Goal 12 on sustainable consumption and production patterns, and also with key EU priorities on jobs and growth, investments, the social agenda and industrial innovation. The EU thus wants to lead this global transformation by example, ensuring that the right regulatory framework is in place for the development of the circular economy in the single market, and giving clear signals to global economic operators and society at large that circular economy is a clear priority for the Commission.

In 2015, the European Commission adopted an ambitious Circular Economy Package, which consists of an EU Action Plan for the Circular Economy that establishes a concrete programme of action, covering the whole cycle of the value chain. The proposed actions will thus contribute to "closing the loop" of product lifecycles through greater recycling and re-use. In detail, the Action Plan for the Circular Economy includes:

**BETTER PRODUCT DESIGN** under the Ecodesign Directive to promote reparability, durability and recyclability of products thanks to differentiate financial contributions paid by producers in extended producer responsibility schemes on the basis of the end-of-life costs of their products.

**IMPROVED PRODUCTION PROCESS** with the promotion of best practices in a range of industrial sectors through Best Available Techniques Reference documents (BREFs) and support for the development of industrial symbiosis, a process by which the waste of one company can become the resource of another company.

**RAW MATERIALS SIMPLIFIED CIRCULATION** thanks to the definition of quality standards for secondary raw materials and to easier cross-border formalities through the use of electronic data exchange.

**COMMON RULES ON FERTILIZERS** to facilitate the recognition of organic and waste-based fertilisers in the single market and support the role of bio-nutrients.

**ACTIONS ON WATER REUSE** as legislation on minimum requirements for wastewater reuse to alleviate pressure on natural resources that are already scarce, and to contribute to nutrients recycling.

**EU STRATEGY FOR PLASTICS IN THE CIRCULAR ECONOMY** to transform the way plastics and plastics products are designed, produced, used and recycled. By 2030, all plastics packaging should be recyclable, items such as plastic straws, cotton swabs, disposable plastic plates and cutlery would be banned by 2021, and 90% of plastic bottle recycled by 2025.

**REVISED LEGISLATIVE PROPOSAL ON WASTE** setting long-term targets to reduce landfilling and to increase preparation for management and recycling of key waste streams such as common EU targets for recycling 65% of municipal waste and 75% of packaging waste by 2030 or a ban on landfilling of separately collected waste.

Three years after the adoption of EU Circular Economy Action Plan, more than half of the initiatives foreseen in the Plan have been delivered. However, to achieve a resource-efficient, circular and low-emission, global cooperation and strong partnerships are needed.  EU regularly programs circular economy missions, formed by a series of high-level political and business meetings between non-European countries and the European Commission, to demonstrate the applicability of circular economy principles across geographic boundaries, and establish the circular economy model as a new development paradigm. So far the Commission has taken the circular economy concept to Chile, China, Iran, South Africa, Colombia, India, Indonesia and Japan.

The European Commission has collaborated with local authorities, EuroCham and the EU-Indonesia Business Network to organise a Circular Economy Mission in October 2018 to promote sustainable and resource-efficient policies in Indonesia, and explore avenues for cooperation between EU and Indonesian green companies and entrepreneurs. This is the first event of its kind in Southeast Asia. Furthermore, the circular economy became the main theme of the 2018 EU-Indonesia Business Dialogue (EIBD), the annual event to foster dialogue between business and policymakers in the EU and Indonesia.

Ensuring a successful transition to the circular economy, however, requires also efforts on many different fronts and does not stop with delivering on actions put forward by the Commission. There is a strong business case behind them which enable companies to make substantial economic gains and become more competitive. European companies operating in Indonesia provides a good example in this sense.

## THE ADVANTAGE OF MOVING TOWARD A CIRCULAR ECONOMY

Circular economy offers a triple win: social, economic and environmental. It reduces waste and environmental degradation, lowering current carbon dioxide emissions levels. At the same time, it will save energy and help avoid the irreversible damages caused by using up resources at a rate that exceeds the Earth's capacity to renew them in terms of climate and biodiversity, air, soil and water pollution. At the same time, it also increases competitiveness, creates jobs at all skills levels and opportunities for social integration and cohesion.

In particular the circular economy will boost the EU's competitiveness by protecting businesses against scarcity of resources and volatile prices, helping to create new business opportunities and innovative, more efficient ways of producing and consuming. The overall net impact on EU employment (# of jobs) across all sectors should amount to 1.2 – 3 million new jobs (+0.3%), driven by increased employment in the waste sector. Europe remanufacturing alone has the potential to deliver 34,000 to 65,000 new jobs (Circulate News, 2016).

## EUROPEAN BUSINESS INVOLVED IN THE CIRCULAR ECONOMY CYCLE IN INDONESIA

Danone, with its AQUA brand, has pledged to recover more plastic than it uses in Indonesia, including through interception of marine littering. 6 collection centres has been created in Java, Bali & Lombok, with a capacity of 12000 MT/year PET Plastics Bottles Waste.

Tetrapak with the programme "One Pack, One Act for Our Earth, for Our Society" teach school children in Indonesia about renewable resources material and recycling. In 2016 –2017, more than 110 schools (30,000 kids and 6,000 teachers) and 14 locations of retailers consumers have been enlightened with the value of used beverage cartons.

BASF has reduced its environment impact using construction chemicals as enabler to reduce environmental impact. Furthermore, it has joined together with Cargill, Procter & Gamble (P&G), and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH in a development partnership under the develoPPP.de programme by the German Federal Ministry for Economic Cooperation and Development (BMZ). The partnership will help establish a sustainable certified and transparent supply chain of coconut oil in Indonesia.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# EU - INDONESIA COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT


Indonesia is the 6th country within ASEAN to start negotiations for a bilateral Free Trade Agreement (FTA) with the EU, after Singapore (2010), Malaysia (2010), Vietnam (2012), Thailand (2013) and the Philippines (2015). As of July 2016, the EU has completed negotiations for bilateral agreements with two of them: Singapore (2014) and Vietnam (2015). Bilateral Free Trade Agreements between the EU and ASEAN countries will serve as building blocks towards a future EU-ASEAN agreement, which remains the EU's ultimate objective.

The President of the Republic of Indonesia Joko Widodo visited the European Institutions on April, 21st 2016. President Jokowi met with the President of the European Council, Donald Tusk, the President of the European Commission, Jean-Claude Junker, and the President of the European Parliament, Martin Schulz. During his visit, President Joko Widodo announced an agreement with European officials on the Scoping Papers for the negotiations on a comprehensive economic partnership agreement.

On July, 18th 2016, the official negotiations for the agreement were launched. A first round of negotiations was held in Brussels in September 2016. The negotiations have been progressing steadily ever since, with the 6th round was held in Palembang, Indonesia, in October 2018. The 7th round of negotiations is planned to be held in March 2019 in Brussels. Negotiations are led by Ms Helena Konig, Director for Asia and Latin America, and Pak Iman Pambagyo, Director General for International Trade Negotiations at the Ministry of Trade.

Discussions have taken place in a friendly and constructive atmosphere. A wide range of topics are included and being discussed including trade in goods, rules of origin, customs and trade facilitation, technical barriers to trade (TBT), sanitary and phytosanitary measures (SPS), trade in services, investment and investment dispute resolution, government procurement, competition, subsidy, and SOEs, intellectual property rights, trade and sustainable development, transparency and good regulatory practices, and economic cooperation and capacity building.

## Key Impacts and Benefits of the Agreement

The EU and the Indonesian economies are highly complementary. The difference in GDP per capita and economic endowments ensures the complementarity of trade between the two partners. A comprehensive economic partnership agreement between the EU and Indonesia will be highly beneficial for the two parties.

Indonesia benefits from the EU's General Scheme of Preference (GSP) program which grants lower tariffs to developing countries in order to support their economic development. Currently, around 70% of Indonesian exports to the EU benefit from lower than 5% tariffs. This preference will be removed as Indonesia has been growing significantly and is expected to soon become an upper-middle income country. The agreement would help Indonesia, through the elimination or reduction on agreed tariffs to anticipate and face this change in the best conditions.

The Centre for Strategic and International Studies, an international independent Jakarta-based think tank, published in 2015 a study on the impact of an EU-Indonesia comprehensive economic partnership agreement. It concluded that with an agreement that provides for an elimination of tariffs on all goods, Indonesian exports could increase by 5.4%, an increase equivalent to €~1.1 billion. In the absence of the agreement, the withdrawal of GSP would see a drop in Indonesia's export of 12%, the equivalent of €2.4 billion. Similarly, the absence of an agreement would lower the competitiveness of Indonesian exports vis-à-vis the exports from ASEAN countries that have concluded an FTA with the EU. This would create an additional fall of 8% in Indonesian exports, the equivalent of €1.6 billion.

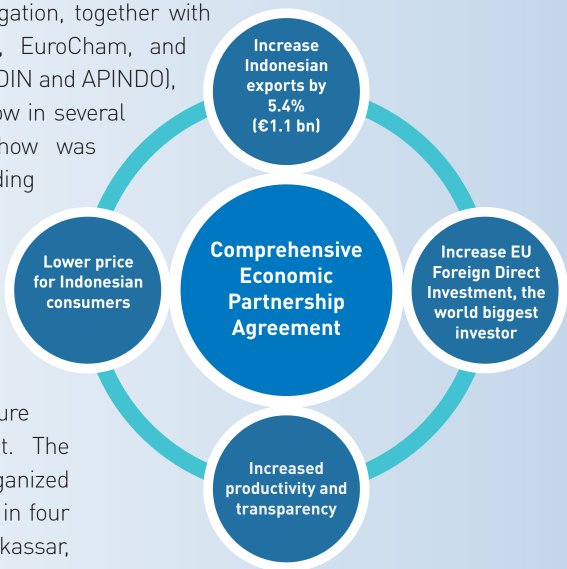
According to the Sustainability Impact Assessment (SIA) by the European Commission, the conclusion of the agreement, in comparison to an outcome where no agreement is reached, will bring by 2032 to expected increases in welfare and GDP for the EU between 0.1 and 0.2 per cent range, from €3.91 billion to €4.74 billion and €4.74 billion to €6.00 billion, respectively. For Indonesia, the expected gains are more pronounced, with the modelling exercise predicting welfare to increase 0.37% to 0.42% (€2.8 billion to €3.23 billion) and GDP by 0.4% to 0.45% (€4.56 billion to €5.19 billion). The estimates also suggest that the reduction in tariff and non-tariff barriers under the FTA will lead EU exports to Indonesia to increase by €6.32 billion (+35.8%), and Indonesian exports to the EU to grow by €6.75 billion (+17.3%).

An enhanced agreement on services would also benefit both economies. While the EU is expected to benefit from surpluses in trade of services, Indonesia would certainly take advantage of the high quality of the European service Industry. The access to a wide variety of services would help Indonesian companies and consumers access them at lower prices, favour a transfer of knowledge and increase productivity of Indonesian services and manufacturing firms.

Finally, an enhanced agreement on investment would be beneficial to the two partners. There is a positive correlation between foreign direct investments and the level of Indonesian exports. These investments could help Indonesia develop a production base that would plug the country into the Global Value Chain, and particularly attract labour-intensive manufacturing jobs. To secure these investments, the agreement shall include provisions that help increasing the predictability and transparency of the investment regime.

## Socialization Roadshow

Stakeholders outreach and awareness raising are seen as important elements to support the negotiations, not only in the capital, but also throughout the regions. With this background, the EU Delegation, together with the Indonesian Ministry of Trade, EuroCham, and Indonesian Business Chambers (KADIN and APINDO), jointly organized a series of roadshow in several regions in Indonesia. The roadshow was aimed to build trust and understanding on the importance of the swift and ambitious conclusion of the agreement among local business, regional government, academia, and other local stakeholders. It was also aimed to create and nurture a favourable environment for the future implementation of the agreement. The roadshow has been successfully organized from September to December 2018 in four cities in Indonesia, namely in Makassar, Medan, Manado, and Surabaya.



# EU - INDONESIA COOPERATION

# INSTITUTIONAL COOPERATION

Indonesia is the first economy of ASEAN, representing 39% of regional GDP. However, the country only ranks fifth in the EU trading partners among ASEAN Member States. The EU and its Member States have therefore supported Indonesia with a range of projects designed to assist integration into the international trade system.

Aid for Trade is financial assistance specifically targeted at helping countries develop their capacity to trade. It includes support in building new infrastructure, improving ports or customs facilities and assistance for authorities and companies to meet health and safety standards for exports to foreign markets. The EU is the world's biggest source of aid for trade. Indonesia is benefiting from EU support both at the national and the ASEAN regional level.

### EU trade support programs to Indonesia – Country Level:

**The EU support programme to Public Finance Management and Revenue Administration (PFM-II – €10 million – 2014 to 2020)** has improved the effectiveness of public finance management in Indonesia. The programme acknowledges that enhanced public finance is critical for creating stable conditions for trade and investment activities.

### EU trade support programmes to Indonesia – Regional Level:

**ARISE Plus programme (2017 – 2022)**, which started in the fourth quarter of 2017, is a follow-up on successful regional programmes. Through ARISE Plus, the EU supports ASEAN in the areas of trade related regulatory and policy frameworks, intellectual property rights, standards, customs and transport, civil aviation, as well as capacity building of ASEAN Secretariat. The programme has a regional level dimension (€40 million, 2017-2022) and country-level trade-related assistance components to support the CLMV countries, the Philippines and Indonesia. ARISE Plus is fully aligned with the ASEAN Economic Community Blueprint 2025 and will serve as the framework for several EU-ASEAN projects based on European models, for example, on customs integration, standards harmonisation, and food safety. Additionally, ARISE Plus has three key deliverables for the private sector including the **ASEAN**

**Trade Repository (ATR)** and **the ASEAN Solutions for Investments, Services and Trade** (ASSIST - initiated respectively in 2015 and 2016). Indonesia Trade Support Facility (2017 – 2022) is a programme under ARISE Plus specifically dedicated to Indonesia. It is endowed with a budget of €15 million. The specific objective is to boost trade performance and competitiveness.

**The Asian Trade Repository (ATR)**

ATR is a web-based portal to enhance transparency of trade and customs laws and procedures of all ten ASEAN member states.

**http://atr.asean.org**

**The ASEAN Solutions for Services, Investment and Trade (ASSIST)**

ASSIST is web-based mechanism for ASEAN-based enterprises to refer trade-related cross-border issues within the framework of the AEC.

**http://assist.asean.org**

**Expected Results of the ARISE Plus Indonesia Trade Support Facility:**

**Result 1:**

Enchanced institutional capacities to implement and coordinate strategic policies related to trade and investment sectors.

**Result 2:**

Improved trade-related competencies to implement the EU-Indonesia FTA and WTO Trade Facilitation Agreement.

**Result 3:**

Export Quality Infrastructure and National Quality Assurance system are implemented in line with international best practices and standards, thus increasing export competitiveness

**Result 4:**

Improved capacities of national and local stakeholders to develop Geographical Indications (GIs) to enhance the local economy and employment opportunities in regions.

**Result 5:**

Improved awareness and knowledge of the domestic industry including SMEs in participating to Global Value Chains.

# BUSINESS COOPERATION

Within the scope of the Instrument for Co-operation with Industrialised Countries (ICI), the EU promotes co-operation with other industrialised and high-income partners. Under the name ICI+, the programme was extended to developing countries and there are currently two complementary components of the five-year ICI+ project in Indonesia: the European Business Chambers of Commerce in Indonesia (EuroCham) and the EU-Indonesia Business Network (EIBN). A total of five million Euros is granted to the programme aiming to improve access to the Indonesian market and providing market information and business support services to European companies looking to enter the Indonesian market.


**European Business Chamber Of Commerce (EuroCham)**, established in September 2004, is the principal European business organisation in Indonesia. Representing more than 200 companies and entities, EuroCham actively promotes European business interests in Indonesia. EuroCham aims to be the Voice of European Business in Indonesia by improving market access and partnering with the Government of Indonesia and the European Union.

Since its establishment, EuroCham has served at the forefront in addressing crucial and important business issues, including trade and investment matters. Continuous information sharing and a proactive advocacy dialogue are the contributing factors for EuroCham to be acknowledged as the Government of Indonesia's partner and other stakeholders as well. These efforts are executed through 13 working groups and 3 member forums, all of which are representing European business interest in their respective industry.

**The EU - Indonesia Business Network (EIBN)** was initiated in August 2013 as a five-year program co-funded by the European Commission, and is the product of a partnership between the six largest European bilateral Chambers of Commerce in Indonesia (EKONID, EuroCham Indonesia, IFCCI, IBAI, DANCHAM, BritCham) and two counterparts in Europe (EUROCHAMBRES and CCI Barcelona). The aim of EIBN is to enhance and diversify European business trade and investment in Indonesia, while promoting the country as a gateway to ASEAN. EIBN seeks to contribute to a more coherent and effective EU strategy for supporting and attracting European businesses, specifically SME's, both those already in Indonesia and those expanding their activities. EIBN establishes a platform for exchange of best practices, information and knowledge. Its activities include awareness raising, organizing workshops, info sessions and dialogues to enhance trade and linkages between the EU and Indonesia plus other ASEAN member states, and providing expertise in business advisory services to support EU companies' market entry.

| EIBN achievements since its establishment | |
|---|---|
| 1,370 | Business Enquiries Received |
| 155 | SMEs Serviced |
| 11 | Organized missions to Indonesia |
| 5 | Organized EU Pavilions in Indonesia |
| 74 | Organized Market Access Events in Europe |
| 20 | Organized Market Access Events in Indonesia |
| 20 | Market Access Reports Published |


EIBN
YOUR GATEWAY TO INDONESIA
More information ?
www.eibn.org
info@eibn.org
kumala@eibn.org
INA


www.eibn.org
EXIT


# SIAL INTERFOOD EXHIBITION 2018

For the third time, EIBN successfully organized a European Food Pavilion at SIAL InterFOOD 2018. 21 EU companies EU companies were represented in the Pavilion giving them the opportunity to present their products to Indonesian end-consumers and multipliers. The pavilion featured diverse European food and beverages products including olive oil, wine, pasta, sauce, dairy products, biscuits, cookies, sweets, baby food, as well as coffee and Halal-certified lifestyle sparkling beverages, juice, and alcoholic beverages. Beyond the Pavilion, EIBN organized successful B2B meetings which gave the European companies the opportunity to meet potential local importers, distributors and retail companies.

# THE EU-INDONESIA BUSINESS DIALOGUE

The EU-Indonesia Business Dialogue (EIBD) is an annual forum of business leaders and government representatives working consistently on emerging opportunities in trade and investment. The on-going work on sectoral and cross-sectoral aspects is the basis for the EIBD Conference. This is uniquely coupled with a more formal government-to-government dialogue, enabling business leaders to have a direct impact on governments' policies. CEOs of Indonesian companies can meet high-level representatives of European Companies to discuss strategic co-operation and development for the Indonesian, wider Asian and European markets. Furthermore, European business leaders have a unique opportunity to evaluate


the potential of the Indonesian market and to speak with industry leaders. The first EIBD was launched in 2009 in Brussel. Since then it takes place in Indonesia, and has featured keynote speeches from high ranked EU and Indonesian officials, including President of the European Council and Vice President of the Republic of Indonesia, EU Commissioners and Indonesian Ministers. In 2018, the EIBD had taken a major breakthrough by adopting the theme: "Circular Economy - Maximizing Business through Sustainable Practices". The event for the first time organizes a session to engage with the youth, and was attended by around 500 participants from businesses, government as well NGOs. The 2018 EIBD was honoured to have H.E. Karmenu Vella, EU Commissioner for Maritime Affairs and Fisheries and H.E. Siti Nurbaya, Indonesian Minister for Environment and Forestry as keynote speakers.

**European Chamber of Commerce in Indonesia – EuroCham**
World Trade Centre 5, 13th Floor
Jl. Jenderal Sudirman Kav. 29 – 31
Jakarta, 12920
T: +62 21 571 0085
F: +62 21 571 2508
Email: info@eurocham.id
www.eurocham.id

**EU-Indonesia Business Network – EIBN**
c/o EKONID
Jl. H. Agus Salim No. 115
Jakarta 10310
T: +62 21 315 4685
E: info@eibn.org
www.eibn.org

**German-Indonesian Chamber of Industry and Commerce EKONID**
Jl. H. Agus Salim No. 115
Jakarta 10310
T: +62 21 315 4685
F: +62 21 315 7088, 315 5276
E: info@ekonid.id
www.ekonid.com

**IBAI (Italian Business Association in Indonesia)**
Menara Mandiri II, 12th Floor
Jl. Jenderal Sudirman Kav. 54-55, Jakarta 12190
Indonesia
T: +6221 5084 7168 / +6281 1979 4262
E: ibai@ibai.or.id

**British Chamber of Commerce in Indonesia – BRITCHAM**
World Trade Centre 5, 15th floor
Jl. Jenderal Sudirman Kav. 29-31
Jakarta - 12920
T: +62 21 522 9453
F: +62 21 527 9135
Email: busdev@britcham.or.id
www.britcham.or.id

**Danish-Indonesian Business Chamber (Dancham)**
Alamanda Tower, 23rd Floor Unit B
Jl. TB Simatupang Kav 23-24
12430 Jakarta, Indonesia

**Indonesian French Chamber of Commerce & Industry – IFCCI**
Jl. Wijaya II No. 36, Kebayoran Baru
Jakarta 12160
T: +62 21 739 7161
F: +62 21 739 7168
E: contacts@ifcci.com
www.ifcci.com

# TRADE HELPDESK

## HTTP://TRADEHELPDESK.EUROPA.EU

The Trade Helpdesk is an online service provided by the European Commission to **facilitate market access for developing countries** towards the European Union. With 500 million consumers, the EU is an attractive market for any exporter. With the new version, the Trade Helpdesk is easier to use


### Can the Trade Helpdesk provide lists of EU importers' names and addresses?

The European Commission which provides the website of the Trade Helpdesk is responsible for trade policy in the European Union but not for trade promotion, which is a competence of the EU Member States. It is therefore suggested to consult the respective Chambers of Commerce, whose reference you can find in the **Business Contacts** Section.

### WHO can enjoy the benefits of the Trade Helpdesk?

Exporters from developing countries, including Indonesia, can take advantage of this online service.

### What can you find in The Trade Helpdesk?

**Requirements and taxes**

- Requirements you must meet to export to and market goods in the EU
- internal taxes applicable in every EU countries
- product-specific legal or market requirements

**Import tariffs**

- import duties
- preferential regime which applies to your country
- preferential and non-preferential tariff quotas
- import licenses
- anti-dumping measures

**Preferential Arrangements**

- EU's main trade agreements with developing countries
- documents that must accompany your exports
- rules of origin exporters must mee

**Trade statistics**

- trade flows between the EU and third countries by year and for any product (group) with a 2- to 8-digit code
- imports and exports - expressed in value and/or quantity or supplementary quantity (liters, pieces, etc.)

**Business contacts**

- EU Institution, Customs and Taxation Organisation
- chambers of commerce and industry (EU, Member States and International)
- professional associations (EU and International)
- voluntary and private standards


Denmark
Poland
Sweden
Estonia
Finland
Latvia
Lituania
Germany
Netherland
United Kingdom
Ireland
Belgium
France
Portugal
Italy
Czech Rep.
Croatia
Hungary
Cyprus
Romania
Spain
Austria
Slovenia
Malta
Slovakia
Greece
Bulgaria


Indonesia

**Delegation of the European Union to Indonesia and Brunei Darussalam**
Intiland Tower, 16th Floor, Jl Jend Sudirman 32
Jakarta 10220 Indonesia
Telephone : + 62 21 2554 6200
Fax : + 62 21 2554 6201
E-mail : delegation-indonesia@eeas.europa.eu
Website : https://eeas.europa.eu/delegations/indonesia_en

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www.youtube.com/unieropatube



Sources: Unless otherwise stated, tables, charts, and graphs in the booklet are based on statistics from Eurostat.