Indonesia and the EU

EU relations with Indonesia (a G20 member) are strong, reflecting Indonesia's status as the country with the 4th largest population in the world and an economic giant, accounting for 35 % of ASEAN GDP. The EU and Indonesia share similar values on regional development, democracy, human rights and the environment.

Political and economic

The EU and Indonesia have entered into a Partnership and Cooperation Agreement (PCA). The PCA covers areas such as trade, environment, energy, education, science and technology, migration and counter-terrorism. Thriving trade links, democracy and human rights, action on climate change and terrorism at home and abroad and expanding people-to-people links are all key areas of focus. Both the EU and Indonesia have historically been committed to peace and stability in the country, one notable feature being the EU's support for the Aceh peace process.

Trade and investment

The Indonesian economy has more than tripled in size in the last decade and is one of the fastest-growing economies in Southeast Asia. It is the largest economy in the Association of Southeast Asian Nations (ASEAN), accounting for around 35 % of ASEAN's GDP. Based on purchasing power parity (PPP), Indonesia's GDP ranked 8th in the world in 2014, whilst based on nominal GDP, Indonesia ranked 16th in 2014. Indonesia's attractiveness resides in the fact that it is a large emerging market of more than 250 million people, with a favourable demographic profile and with a sizeable and rapidly growing middle class. It has been projected that Indonesia could be a USD 1.8 trillion economy by 2030, and hence become the 7th largest economy (up from 16th today).

Total bilateral trade in goods between the EU and Indonesia reached €25.4 billion in 2015, with the EU exporting €10 billion worth of goods, while Indonesia's exports to the EU amounted to €15.4 billion, translating into a healthy surplus for Indonesia of €5.4 billion. In fact, the EU was Indonesia's 2nd largest export destination in 2015 with an 11.2 % share of Indonesia's total exports worldwide. In 2015, Indonesia ranked 30th in overall EU trade worldwide. Within ASEAN, EU-Indonesia trade only ranked 5th compared to EU trade with other ASEAN Member States. Total EU-Indonesia bilateral trade in services in 2014 reached €6 billion, with the EU posting a surplus of €2.2 billion.
The EU is also one of the largest investors in Indonesia with EU foreign direct investment (FDI) amounting to USD 2.2 billion in 2015, and USD 3.7 billion in 2014. According to the Indonesian Investment Agency (BKPM), between 1990 and 2014, total EU FDI flows in Indonesia reached USD 28.2 billion, with most of the investment going into the chemical and pharmaceutical industry (USD 6.8 billion or a 22.3 % share of total EU FDI to Indonesia).

EU-Indonesia CEPA

In April 2016, EU and Indonesian leaders announced the conclusion of pre-negotiation discussions (scoping) designed to enable the launch of negotiations for a so-called Comprehensive Economic Partnership Agreement (CEPA), more commonly known as a Free-Trade Agreement (FTA). If realised, the CEPA between the EU and Indonesia will be a trade agreement with a potentially impressive scale, creating a combined market of more than 750 million consumers. The economies of the EU and Indonesia are quite complementary as regards trade in goods and services, and therefore the potential benefits of concluding a CEPA are proportionally larger. An FTA between the EU and Indonesia would provide for a more stable, balanced and long-term framework to enhance trade and investment relations between the EU and Indonesia. A study published by the reputable Indonesian institute, the CSIS, in May 2015, assessed the potential gains from concluding a CEPA between the EU and Indonesia. If the CEPA manages to eliminate tariffs on all goods, the annual quantities that the EU will import from Indonesia could increase by 5.4 % when compared to their current value — an increase equivalent to an additional USD 1.1 billion. In addition to pure trade creation effects, the study also points to other potential benefits.

Trade cooperation

The EU supports Indonesia with a range of projects designed to assist integration into the international trade system. The EU-Indonesia Trade Cooperation Facility (TCF), a four-year €12.5 million project, which began in 2013, aims to strengthen the capacity of government institutions to improve the trade and investment climate. Similarly, the EU-Indonesia Trade Support Programme II (TSP2), which ran from 2011 to 2015 with EU funding of €15 million, has helped improve Indonesia’s Export Quality Infrastructure significantly. Other smaller grant programmes have involved key civil society organisations in trade and investment. Four co-funded ACTIVE projects have focused on different areas related to sustainable forestry management, preparation for trade agreements, support for EU-Indonesia business dialogues and government-business negotiations at national and provincial level. In addition, through the Instrument for Cooperation with industrialised and high-income countries and territories (ICI+), the EU aims to facilitate market access for European companies in Indonesia and ASEAN, in particular small and medium-sized enterprises (SMEs). Two initiatives with Eurocham and the EU-Indonesia Business Network, and with the different European Chambers of Commerce in Indonesia, provide advocacy and business support services and raise awareness of the potential of the Indonesian market in Europe.

Education

The EU is one of the largest partners supporting education in Indonesia. The EU has promoted education reforms through three main initiatives under the Education Sector Support Programme
First, running from 2008 to 2017, the EU provides direct budget support to the government to increase access to primary education and improve the quality, relevance and governance of education more broadly. Second, the Analytical Capacity and Development Partnership has carried out 40 evidence-based policy studies addressing, among other things, gender, early childhood development, student assessment systems, improved teaching and learning techniques, and a roadmap for a qualifications framework. Third, the Minimum Service Standards Capacity Development Programme supports the implementation of Minimum Service Standards in basic education. It addresses quality, governance and regional disparities in education with concrete actions such as teacher training and the provision of school books.

In addition to these projects, the EU also supports higher education in Indonesia. Through the Erasmus+ programme, the EU awarded over 100 scholarships for Indonesian students to study in Europe in 2015. Today around 9,000 Indonesian students are studying in Europe, of which 1,600 have received scholarships from the EU and its countries. Events such as the European Higher Education Fair (EHEF) are valuable opportunities for students to find out what's available.

Health

The European Union provides significant contribution to the Government of Indonesia and its civil society partners in combating HIV/AIDS, tuberculosis and malaria, notably through the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). The EU Delegation in Jakarta plays a key role in the Country Coordination Mechanism (CCM), as the EU representative. The EU has also been a key financial contributor to Indonesia's efforts to control influenza, notably under the National Strategy for Avian Influenza Control and Preparedness for Human Pandemic Influenza.

Good governance

The EU supports the Indonesian government's priorities designed to support good governance, combat corruption, improve justice and law enforcement, promote greater respect for human rights and combat trans-national crime. Other work by the EU here has focused on training judges and law enforcement. To help improve government revenue administration and sound public financial management, the EU has contributed €10 million towards the €21 million Public Finance Management Multi-Donor programme, phase II. Similarly, the €10 million SUSTAIN project is working to improve the transparency, integrity and accountability of the judiciary and the quality of justice services for all citizens. Furthermore, this is complemented by a four-year Improving Efficiency, Transparency and Accountability in Public Procurement project, now in its second phase and supported by the EU with €600,000, which aims to enhance integrity in public procurement in seven target local governments. In the past, the EU also provided a €12 million programme that supported the institutional strengthening of the Corruption Eradication Commission (KPK), the Indonesian National Police (INP) and the Jakarta Centre for Law Enforcement Cooperation (JCLEC).

Civil society

The EU has a long history of cooperation with civil society organisations (CSOs) in Indonesia in the field of development, fighting poverty and respect for fundamental freedoms. An official EU document
The roots of democracy and sustainable development: Europe's engagement with Civil Society in external relations identifies priority areas for engagement with CSOs in this area.

The EU-Indonesia PCA also underlines the important role of CSOs in this field.

The EU Delegation to Indonesia has also been supporting the capacity development of civil society and local authorities through the CSO-LA programme to improve accountability and inclusive policy-making. For the period of 2007-2015, the EU invested €11 million to support the work of Indonesian civil society in the areas of education, local governance, public procurement and finance management, gender responsive and pro-poor policies and budgets, ecotourism, trade and investment, youth empowerment and other areas.

Following extensive consultations, in 2015 the EU announced the EU Roadmap for Engagement with Civil Society in Indonesia 2015-2017 to further strengthen partnerships with civil society and provide support to their endeavours.

**Environment and climate change**

The EU is one of the main development actors promoting initiatives that protect the environment, the sustainable management of Indonesia's rich rainforests and the fight against climate change.

In 2015, at the Paris climate conference (COP21), Indonesia committed to reducing emissions by 29% by 2030 as compared to the 'business as usual' scenario. Protecting the environment and addressing global climate change have become central in EU-Indonesia development cooperation activities. Both parties recognise that reducing greenhouse gas emissions is key to countering global warming.

In 2013, the EU and Indonesia signed a Voluntary Partnership Agreement (VPA) to improve forest governance and promote trade in legal timber from Indonesia to the EU. Indonesia, with the help of civil society, initiated and developed a system giving its timber access to the European market.

Elsewhere, the EU's Forest Law Enforcement Governance and Trade (FLEGT) Action Plan has helped enable Indonesia to develop one of the most advanced Timber Legality Assurance Systems in the world (the SVLK or Sistem Verifikasi Legalitas Kayu).

The EU also supports Indonesia’s national climate change response via a €15 million Climate Change programme, notably supporting the Aceh and Papua provinces in their efforts towards low-emission development planning.

A change to sustainable consumption and production is supported by the EU and Indonesia. To encourage this, the EU has been implementing the SWITCH-Asia programme in 16 Asian countries, including Indonesia, since 2007.

**Human rights**

The close partnership of the EU and Indonesia in this area is illustrated by the annual Human Rights Dialogue launched in 2010. The dialogue allows for open and frank exchanges on the latest developments, policies and challenges at home and abroad.

Democracy and the protection of human rights are also the basis of the PCA.
The EU has provided support for civil society efforts towards promoting human rights and fundamental freedoms in Indonesia through the European Instrument for Democracy and Human Rights (EIDHR). Since 2007, the EU has supported more than 35 projects worth € 9 million with civil society organisations. These projects range from civic education, election monitoring, rights of vulnerable groups, human rights violations, prevention of torture, promotion of religious tolerance and freedom of expression.

See our latest country-specific report (published 13 May 2019) HERE

See also

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