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European Union

TRADE AND INVESTMENT WITH INDONESIA

EU Delegation to Indonesia, Brunei Darussalam and ASEAN

The European Union

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28 member states

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1 single market

The free movement of people, goods, services and capital

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"As a close friend of Indonesia since childhood, it is very rewarding to observe the astonishing transformation of Indonesia over the last decade. I am proud to represent a European Union which has strongly accompanied this positive change. This booklet gives an overview of the EU's weight in the global economy, of EU-Indonesia trade and investment relations, and also of trade and investment relations between the EU and ASEAN."

—— MESSAGE FROM ——

AMBASSADOR TO INDONESIA, BRUNEI DARUSSALAM AND ASEAN

OLOF SKOOG

The EU and Indonesia have a very strong economic relationship. With over 24 billion EUR in trade in 2013 alone, the EU was Indonesia's third largest trading partner, offering Indonesian companies access to the largest market in the world. In 2014 (Jan-Sep), the EU has overtaken China as the number one export market for Indonesian goods. Furthermore, the EU is the largest trade partner with which Indonesia enjoys a substantial trade surplus.

With regard to investments, European companies are increasingly interested in Indonesia and in 2013 FDI from the EU reached a record high 2.4 billion USD. So far this year, the EU has overtaken Japan and become the second largest provider of FDI into Indonesia.

I am proud that EU business provides and sustains over a million high-quality jobs for Indonesian workers and that our companies transfer skills and technology to this country. I am also proud of the way EU companies embody a strong social approach towards their most important asset, namely their employees. The EU attaches high importance to corporate social responsibility (CSR) and encourages sustainable business practices by European companies that support inclusive growth.

So there is a lot to gain in a deeper economic relationship and there is plenty of scope to go further. I hope that this booklet will serve as a valuable reference and help to identify the opportunities to be grasped and the challenges to overcome. With new ambitious, open and result-oriented leadership both in Indonesia and the European Union we are presented an excellent opportunity to take the economic relations to new heights.

Jakarta, November 2014

TRADE AND INVESTMENT WITH INDONESIA

EUROPEAN UNION & INDONESIA

THE EU IN THE WORLD

THE WORLD'S LARGEST ECONOMY: 20% OF GLOBAL GDP

ONE OF THE WORLD'S MOST LUCRATIVE MARKETS: 507 MILLION CONSUMERS

THE WORLD'S LARGEST TRADING BLOC: 15% OF GLOBAL TRADE IN GOODS; 22.5% OF GLOBAL TRADE IN SERVICES

THE WORLD'S PRIME INVESTMENT DESTINATION: 26% OF GLOBAL ANNUAL FDI INFLOWS

THE WORLD'S LARGEST INVESTOR ABROAD: 33% OF GLOBAL ANNUAL FDI OUTFLOWS

A SINGLE MARKET, A SINGLE TARIFF, A SINGLE SET OF RULES

1. The EU as a Global Player

The EU is the world's largest economy, representing over 20 % of the world's GDP

The EU and its economic prosperity matter immensely to the rest of the world. The EU remains the **world's largest economy** with over 20% of the world's gross domestic product (GDP) and more than 500 million inhabitants, making it the world's most lucrative consumer market. The EU is the **world's largest investor abroad**: in 2012, global foreign direct investments (FDIs) from the EU amounted to around EUR 170.6 billion.

It is also the **world's largest trading block**, accounting for 15% of global trade in goods and 22.5% of global trade in services in 2013. In the top 10 trading countries, four belong to the EU (Germany, the Netherlands, France, and Italy). With just 7% of the world's population, the EU accounts for over one quarter of the world's wealth as measured by GDP.

In 2013, the EU was the world's largest exporter of goods with 15.3% of total world exports (EUR 1'737. 1 billion), ahead of China with 14.7% and the United States with 10.5%. Japan followed in fourth place with around 4.8% of total world exports. The EU was also the world's second biggest importer of goods with 14.8% of total world imports valued at EUR 1 682.6 billion, after the United States (15.4%) but ahead of China with 12.9%. Japan followed in fourth position with 5.5% of total world imports.

The EU is the world's largest global exporter of commercial services, with 25.2% of total trade valued at EUR 676.9

The Global Competitiveness Index 2014-2015 rankings

	GCI 2014-2015		GCI 2013-2014
Country/Economy	**Rank (out of 144)**	**Score**	**Rank (out of 148)**
Switzerland	1	5.70	1
Singapore	2	5.65	2
United States	3	5.54	5
Finland	4	5.50	3
Germany	5	5.49	4
Japan	6	5.47	9
Hong Kong SAR	7	5.46	7
Netherlands	8	5.45	8
United Kingdom	9	5.41	10
Sweden	10	5.41	6

Source : World Economic Forum, 'Global Competitiveness Report' (2012–2013)
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billion, ahead of the United States with 18.7%, China with 5.8% and India with 4.5% of commercial services. The EU is also the world's largest global importer of commercial services, with 19.7% of total trade valued at EUR 505.5 billion, ahead of the United States with 12.7%, China with 9.7% and Japan with 4.8% of imported commercial services.

The EU's trading partners benefit greatly from such a large market, in which a single tariff and a single set of trade rules apply at the border and a single set of harmonised rules apply within all Member States, making it easier for companies to do business with EU partners. The EU's strength is further substantiated by the findings of the World Economic Forum's 'Global Competitiveness Report' (2014-15), showing that five of the 10 most competitive countries in the world are EU Member States.

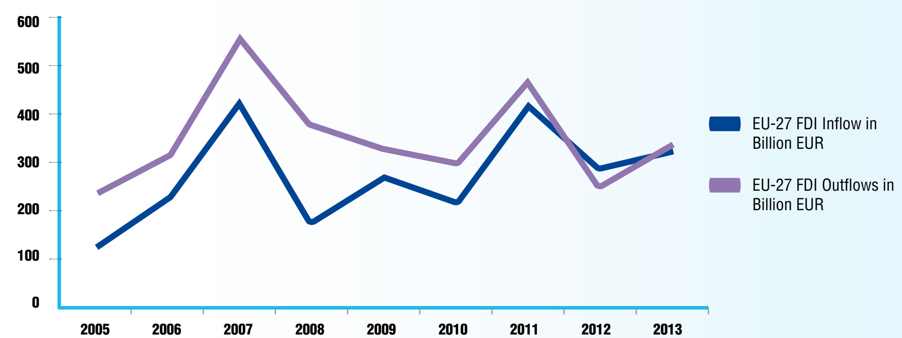
European companies are global players

European companies are global players: out of the world's top-20 non-financial multinational corporations (MNCs) ranked by foreign assets, 14 are from the EU.

There are 135 EU companies in the Fortune 500, more than from the United States (132), China (75) and Japan (62). The fact that EU companies are the world's most active investors overseas is not due to a lack of opportunities for growth in their home market: on the contrary, the EU remains the world's number one location for FDI.

In 2011, the EU was the biggest source of foreign investment stock, totalling almost EUR 5 trillion, corresponding to almost 32.4% of the world's total outward FDI stocks. This is impressive, especially against the backdrop of the recent global crisis.

EU-27 FDI
EUR billion



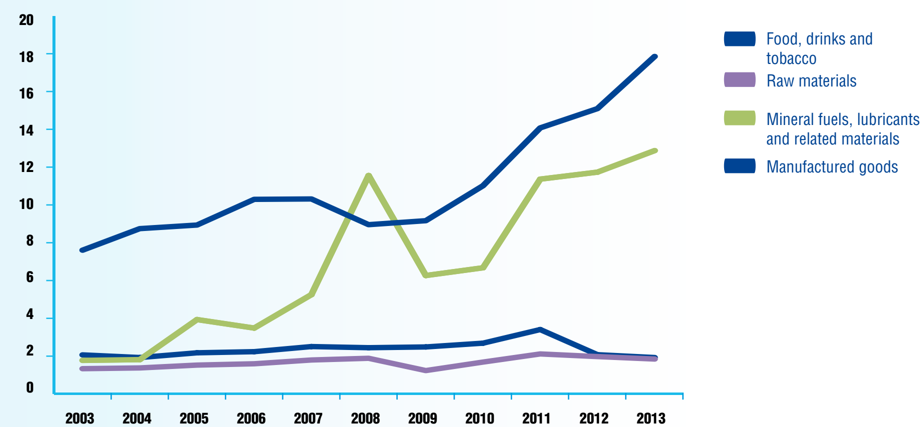
Source : Eurostat

The EU promotes open trade for the benefit of all

International trade and investment matter to the EU. Trade is an engine for global growth as it contributes to long-term jobs and has a real impact on the day-to-day lives of people and businesses. Today's trade is all about **global supply chains**. Two thirds of all imports are raw materials, intermediary goods and components. Very few products are made in one place from start to finish. Instead they are produced or assembled over a long series of individual steps often located in different parts of the world. All countries therefore need to adopt a sophisticated approach to exports and imports. Viewing for instance imports as 'bad' is highly counter-productive and damaging to the domestic economy.

The EU therefore promotes globalisation to the benefit of all, in developed and developing countries alike. Globalisation must continue to develop through commonly agreed rules and principles, ensuring benefits to the population as a whole. Trade openness can be an important lever to lift developing countries out of poverty and enable them to reap the benefits of globalisation — provided that the right conditions are met in terms of the phasing-in of market opening, and technical assistance. Moreover, a rules-based trading system is a necessity for globalisation to work effectively. Enforcement of these rules is equally important and institutions must be built and strengthened to ensure the proper enforcement of these rules.

EU-28 Imports from least developed countries in Billion EUR (2003-2013)
EUR billion



Open trade contributes to growth

Global trade has grown rapidly in the last 10 years. Between 1999 and 2008 — an important period in terms of trade growth — the value of world trade in goods grew by 73%. It has been estimated that about a quarter of that growth is due to trade policy choices: traditional tariff cuts as well as other measures that reduced non-tariff barriers. The other three quarters are due to overall economic growth (and increased demand), technology, efficiency gains in transport, etc.

The EU is trying to engage more closely with its strategic partners and complete the trade deals that are currently on the table. For instance, the EU has recently launched negotiations with the United States on the Transatlantic Trade and Investment Partnership and with Japan for a free trade agreement. Our ambitious negotiation agenda includes agreements now being discussed not only with major players, but also with emerging economies across Asia, Latin America and Africa. In the ASEAN region, we have concluded a landmark deal with Singapore, and we are currently negotiating with Vietnam, Thailand, and Malaysia. The bilateral agreements are very much viewed as stepping stones to an eventual region-region EU-ASEAN accord. Trade liberalisation creates additional opportunities for innovation, stronger productivity growth and more value-added trade.

Trade for development

The EU as a whole remains the **world's largest donor of official development assistance**, collectively providing for EUR 55.2 billion in 2013. In addition to development assistance, the EU grants trade preferences to developing countries. This system, known as the generalised scheme of preferences (GSP), was set up in 1971 and is the most widely used system of preferences of any developed country. The GSP grants additional preferences to countries that engage in respecting labour, environmental and good governance standards (GSP+), as well as total access to EU markets (except for arms and ammunition) for least developed countries (LDCs) through EBA ('Everything but arms').

The EU GSP has recently undergone a review which aims to strengthen the effectiveness of trade preferences towards the countries that are most in need, especially LDCs, and that are not part of any other preferential arrangement. LDCs will still be able to access the EU market at zero tariffs. Meanwhile, the new system increases transparency and predictability, and continues to emphasise labour rights, environmental and good governance standards. The new GSP system came into effect on 1 January 2014.

2. Indonesia in the World

INDONESIA IS THE WORLD'S FOURTH MOST POPULOUS COUNTRY. IT CONSISTS OF AROUND 17,500 ISLANDS, MAKING IT THE LARGEST ARCHIPELAGO IN THE WORD.

Indonesia, situated in Southeast Asia, is a **founding member of ASEAN and a member of the G-20.** According to the World Bank International Comparison Program (2011), the Indonesian economy was the world's 10^{th} largest by purchasing power parity.

Indonesia is the world's fourth most populous country. It consists of around 17,500 islands, making it the largest archipelago in the word.

With an economic growth of 5.8% in 2013, Indonesia was the **second fastest growing economy** in G-20 after China, growing faster than Brazil, India, and Russia. In six of the last seven years, Indonesia has enjoyed over 6% of GDP growth. While the economy has slowed somewhat in 2014, there is tremendous untapped potential. With over half the population under the age of 30, the demographics support continued long term growth. GDP is expected to reach USD 1 trillion in 2015. The increase in the purchasing power of Indonesia's middle class has also spurred domestic demand for consumer products, automotive, food and beverages. According to McKinsey, in 2030 Indonesia could become the seventh largest economy in the world, with 135 million members of the consuming class and an estimated USD 1.8 trillion market opportunity in consumer services, agriculture, and education.

With a population of around 250 million people and a growing middle class, a democratic political system and a strategic geographical position in the region, Indonesia is a very attractive market. Indonesia is the world's number one producer of palm oil, the world's largest exporter of thermal coal and nickel, and home to many other sought-after minerals, such as gold, copper and bauxite, as well as agricultural commodities like cocoa, coffee, and tea. Indonesia is also a prominent producer and exporter of manufacturing goods such as textile and garments, footwear, rubber, electronics, motorcycles, wooden products, paper, and light machinery. According to the WTO, Indonesia was the 26th biggest exporter of goods in the world in 2012.

The international recognition of Indonesia as a key global player is also reflected in the fact that Indonesia hosted two important world events in 2013: the APEC Summit in October and the WTO Ministerial Meeting in Bali in December, where Indonesia showcased itself as a world powerhouse for trade and investment. The new government of President Joko Widodo has set out an ambitious reform agenda to streamline current bureaucratic procedures and **increase regulatory transparency** in order to increase the ease of doing business.

TRADE AND INVESTMENT WITH INDONESIA
PARTNERSHIP

3. The EU – Indonesia Partnership

The EU-Indonesia relationship is extensive and important for both. A thriving economic partnership is paving the way for a closer political relationship to the benefit of future generations of Indonesians and Europeans. Today it is a friendship that includes co-operation on education, climate change, emergency response, justice, trade and investment – all based on the core values shared by the EU and Indonesia.

In **political matters**, co-operation has been expanding for two decades. This has ranged from election observation during the late 1990s, through human rights and inter-faith dialogues and even to support on conflict resolution.

In the area of **diversity, people-to-people contact** is growing every year. Students, businessmen and tourists are boosting these people-to-people flows towards a level of one million per year. In education, the EU provides about 1,000 grants to Indonesian students to study at European universities every year.

Thanks to the opportunities opened up by the **Partnership and Cooperation Agreement** signed in November 2009, political, economic and sectorial cooperation 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.

4. The benefits of a strengthened trade and investment partnership

European-Indonesian commercial relations have a long history of trade and business exchanges. Indonesia and the EU, with a combined market of more than 750 million people represent enormous markets for EU and Indonesian companies respectively. With its large consumer market of more than 500 million people, the EU comprises one fifth of the world economy and total world trade. The EU operates under a single trade regime, facilitating market opportunities for Indonesian companies. Similarly, Indonesia provides attractive trade and investment opportunities for EU business with its rapidly growing middle-class and its strategic location within ASEAN. Indonesian exports to the EU have doubled over the last six years and Indonesia enjoyed a trade surplus with the EU of €4.6 billion in 2013. The EU represents the **number one export market for Indonesian goods overtaking China**. Furthermore, Indonesia enjoys a **large trade surplus** with the EU but has trade deficits with both China and Japan.

However, there has been a growing realisation among policy-makers and business communities on both sides that the full potential of this dynamic relationship has not been tapped. Given the size of the two partners, trade and investment levels are well below the volume that could be expected, in particular when considering that Indonesia is by far the largest economy in ASEAN. The EU (Jan-Sep 2014) overtook Japan as the **second largest provider of Foreign Direct Investment (FDI)** into Indonesia. However, the EU is the biggest provider of FDI in the world and EU companies would likely invest even more in Indonesia if both sides pinned down a deeper trading relationship. In terms of investment, the agreement would attract large scale EU investments across a wide range of sectors including manufacturing, infrastructure, agriculture, and services. FDI from the EU will not only help to further spur economic growth, but it will also improve R&D capabilities and facilitate the transfer of skills and technology. In addition, it can be assumed that greater FDI to Indonesia will eventually lead to greater exports from Indonesia to the EU, given that trade and FDI flows have shown a strong correlation.

Given that the EU and Indonesia have **complementary economies**, the mutual benefits of a trade and investment agreement would be substantial. The expected establishment of the ASEAN Economic Community in 2015 will make it even more imperative for Indonesia to ensure a fully competitive and investment-friendly environment in order to meet the challenges of market liberalisation and regional trade integration. Deepening ties with the EU could provide up-front benefits for Indonesia of attracting investments and creating a market ready for such change.

ADVANTAGES OF TRADE AND INVESTMENT

- Trade and investment mean jobs, higher salaries and improved living standards
- Increased trade offers a greater variety of goods at lower prices
- Trade and investment help to reduce poverty
- Trade and investment allow countries to produce products and services for its citizens internationally
- Trade and investment spread innovation, new technologies, and R&D, leading to improvements in products and services people use
- Trade and investment bring people together. They develop and secure economic ties between nations and contribute to political stability
- Trade and investment boost competition and competitiveness. They allow businesses to buy inputs at the lowest prices and compete in world markets

5. EU-Indonesia Trade and Investment Relations

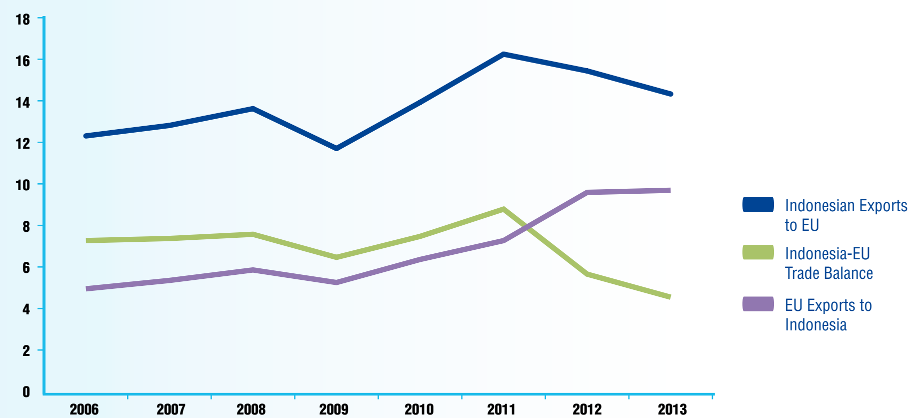
5.1 Trade in Goods

Relations between Indonesia and the EU are substantial. Bilateral merchandise trade amounted to EUR 24 billion in 2013 resulting in **a sizeable EUR 4.6 billion surplus** for Indonesia (source: Eurostat).

With USD 12.7 billion for the period of January to September 2014, the EU is today **Indonesia's largest non-oil and gas export destination** ahead of China and the third largest source of non-oil and gas imports after China and Japan (source: BPS). For the EU, Indonesia is the 25th largest import source and the 33rd largest export destination.

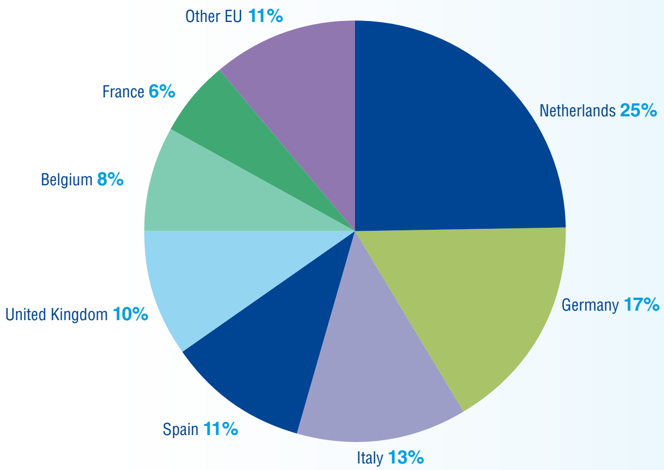
Trade flows between Indonesia and the EU complement each other. Indonesia's exports to the EU are predominantly represented by (semi) manufactured goods, minerals, textiles, and agricultural products. EU exports to Indonesia mainly consist of high-tech machinery, transport equipment, manufacturing goods, and chemicals. 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 consumption goods, while capital goods comprise around 40% of Indonesia's imports from the EU 2013.

Indonesia - EU Trade Relations
(billion euro)



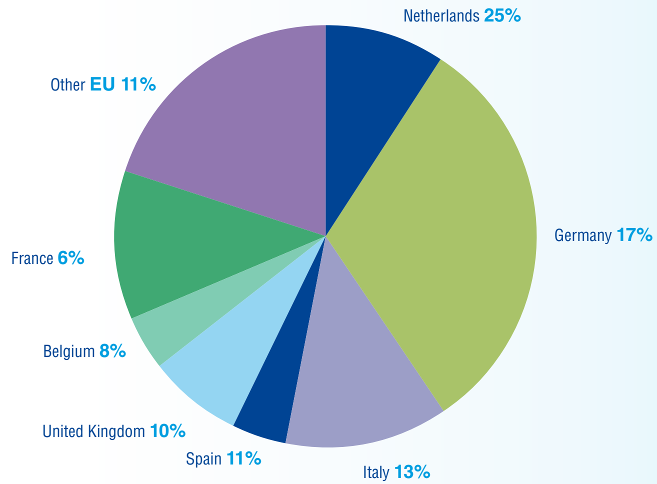
Source Eurostat

Share of EU Member States as Indonesia's Export Destination to EU (2013)



Source Bank Indonesia

Share of EU Member States as Indonesia's Import Sources (2013)



Source Bank Indonesia

Indonesia's Top 10 Export Articles to EU in 2013

		Value (EUR million)	Share
1	Miscellaneous manufactured articles	3,589	25%
2	Animal and vegetables oils, fats and waxes	2,822	20%
3	Machinery and transport equipment	1,924	13%
4	Chemicals and related product	1,096	8%
5	Manufactured goods classified by material	1,490	10%
6	Crude materials, inedible, except fuels	1,377	10%
7	Food and live animals	1,324	9%
8	Mineral fuels, lubricants and related materials	474	3%
9	Beverages and tobacco	101	1%
10	Other commodities	194	1%
	Total export	14,391	100%

Source Eurostat

EU Top 10 Export Articles to Indonesia in 2013

		Value (EUR million)	Share
1	Machinery and transport equipment	5,069	52%
2	Chemicals and related product	1,302	13%
3	Manufactured goods classified by material	1,143	12%
4	Miscellaneous manufactured articles	555	6%
5	Crude materials, inedible, except fuels	532	5%
6	Food and live animals	496	5%
7	Mineral fuels, lubricants and related materials	207	2%
8	Beverages and tobacco	62	1%
9	Animal and vegetables oils, fats and waxes	14	0.1%
10	Other commodities	332	3%
	Total export	9,712	100%

Source Eurostat

5.2 Indonesia's Key Export Sectors

Palm oil is a key pillar in Indonesia's economy providing a living for an estimated 3.5 million households. There are **no restrictions** on Indonesia's exports of palm oil to the EU. The EU is Indonesia's **second largest market** for palm oil after India. Exports of both crude palm oil (CPO) and fractionated palm oil to the EU have expanded rapidly. More than one third of Indonesian CPO exports are destined for the European market. The EU grants duty free market access to 66.3% of crude palm oil imports for technical or industrial uses, while applying low MFN customs duty rates to imports of crude palm oil for food use ranging from 3.8% to 12.9%. Palm oil and liquid fractions for industrial use and food use enter the EU market at 5.1% and 9% MFN customs duty rate respectively. As a result, CPO exports from Indonesia to the EU have increased in value terms from EUR 893 million in 2008 to EUR 1.7 billion in 2013. CPO exports are Indonesia's number one export commodity to the EU with a share of 12% in 2013 of the country's total exports to the EU (up from less than 7% in 2008). Added with palm oil fractions, this share would be even higher in terms of overall exports, at around 16%.

Wood and paper products are further key export goods from Indonesia to the EU. In line with Indonesia's request to its trading partners to prohibit the import of illegal timber products, the EU has heightened controls in a bid to ban illegal timber products from its market. At the same time, the EU facilitates the access of legally verified timber products to the EU market. Hence, EU policies offer a balanced approach taking into account various aspects related to the trade of timber products.

- The EU prohibits the placing of illegal timber from its market. Hence, all imports of timber and paper products to the EU must guarantee the legal nature of their source.
- Indonesia has worked to implement a national timber legality assurance system (SVLK), developed through a multi-stakeholder process with government, industry and civil society.
- The EU and Indonesia signed a **Voluntary Partnership Agreement (VPA)** on 30 September 2013, assuring the access of legal Indonesian timber exports to the EU market. Upon full activation of the VPA, the Indonesian timber legality assurance scheme (SVLK) will be recognised as fully meeting EU legal standards, giving buyers excellent assurances of the legality of timber products from Indonesia.
- The EU has provided EUR 40 million in financial co-operation to support the timber sector in Indonesia and will contribute a further EUR 10 million to assist industry and civil society in the implementation of the SVLK agreement

The Indonesian **fisheries** sector contributes around 2% to Indonesia's GDP and provides 6 million direct jobs. The EU in return is increasingly dependent on imports of fishery products to meet its domestic consumption. It is the world's **largest importer of fishery products** accounting for 25% of the world's total imports and making it a particularly relevant market for the Indonesian fishing industry. The EU has food safety standards in place that need to be met by all exporters. In order to improve the safety of Indonesian fishery products and meet EU standards, a technical dialogue has been established between Indonesia and the EU for the last four years to strengthen food safety testing and data collection in Indonesia so as to improve the safety of Indonesian fishery products and exports. In addition, the EU provides financial support to help Indonesia in strengthening its national system for testing. As a result, the number of Indonesian shipments that are rejected by the EU for food safety reasons has been reduced.

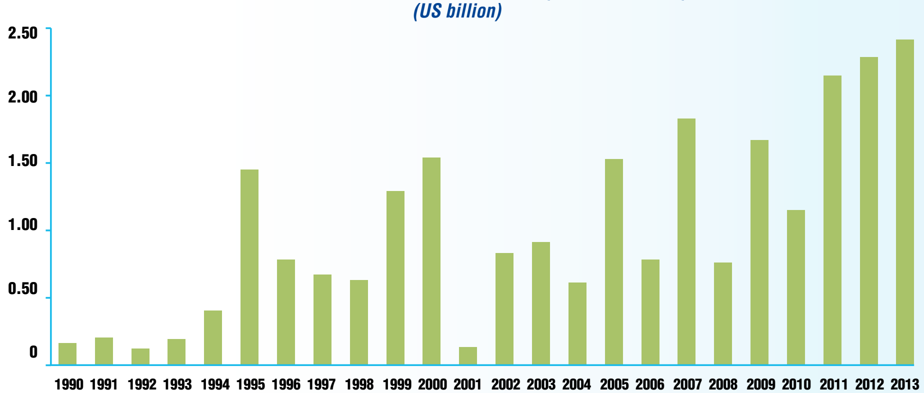
The textile and garment industry is another vital sector for the Indonesian economy. About half of the country's textile and garment production is exported. A total of 2,700 companies are engaged in the textile and garment industry absorbing **1.2 million workers**. With a consumption of EUR 500 billion, the EU is the world's largest market for textile and garment products as well as a leading exporter of the selected products.

Electronics is the single largest contributor to Indonesia's foreign exchange earnings from manufactured exports, accounting for around one fifth of Indonesia's manufacturing exports. Consumer electronics lead industrial electronics by a two-to-one ratio and the **European Union is Indonesia's largest export market for consumer electronic products**, including recording devices, radio and television receivers, refrigerators, and heating appliances. Within the Indonesian economy, the industry contributes nearly 6% to the GDP. In the era of global supply chains, the electronics industry will gain further importance for the Indonesian economy.

Indonesia - EU Trade in Services

Source Eurostat

FDI from the EU to Indonesia (1990 - 2013)
(US billion)



Source BKP (data excludes oil & gas, finance)

5.3 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 and for 50% of the GDP of Indonesia respectively. **Indonesia's trade in services with the EU has increased** during the last seven years. Indonesian service exports to the EU amounted to EUR 1.5 billion and imports from the EU reached EUR 2.4 billion in 2012.

Indonesia has a comparative advantage vis-à-vis the EU in labour-intensive services, such as tourism, transportation and construction. New export opportunities are emerging in communication, IT and business services. 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.

5.4 Foreign Direct Investment (FDI)

Between January and September 2014, **FDI inflows from the EU amounted to a record high of USD 3.2 billion, second only to Singapore.** FDI inflows have increased from USD 2.41 in 2013 and during the period of 1990 to 2013 FDI from the EU to Indonesia amounted to an accumulated total of USD 24.6 billion (data source: BKPM).

FDI to Indonesia

	FDI to Indonesia in 2013	No of Projects	New FDI (million USD)
1	Japan	958	4,712
2	Singapore	1,592	4,670
3	USA	210	2,435
4	EU	902	2,414
5	South Korea	807	2,205

Source BKPM

EU companies particularly invest in sectors with **high value added products or activities**. EU investments in Indonesia are predominantly allocated in manufacturing (especially chemicals and pharmaceuticals), food industries, infrastructure, and mining.

FDI from The European Union to Indonesia (2013)

FDI from the EU in 2013	New FDI (million USD)	Share %
	2,414	100
Chemical and Pharmaceutical Industry	1,016	42
Mining	503	21
Transport, Storage and Communication	197	8
Food Crops & Plantation	163	7
Food industry	123	5
Electricity, Gas & Water Supply	42	2
Others	370	15

Source BKPM

EU investments have brought significant benefits to Indonesia:

- **Technology Transfer and Higher Added Value**. FDI from the EU has brought technological spillovers, 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.

Investment opportunities in Indonesia are numerous including in infrastructure, green economy, services, and manufacturing. Under the Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI) projected investment needs in infrastructure amount to a total of USD 162 billion between 2011 and 2025 equalling USD 11 billion per year. Similarly, vast opportunities exist in Indonesia's green sector given that Indonesia has committed itself to decrease greenhouse gas emissions by 26% until 2020 with its own resources and by 41% with international assistance.

Investments by EU companies in a number of sectors in Indonesia contribute to economic development in terms of job creation, technology transfer and market development. To grasp the beneficial impact of EU investments in Indonesia the following examples across a range of different sectors can be considered:

FDI from The European Union to Indonesia (1990 - 2013)

FDI from the EU to Indonesia in 1990 - 2013	1990-2013 (million USD)	Share %
	24,679	100
Chemical and Pharmaceutical Industry	5,457	22
Transport, Storage and Communication	4,665	19
Food Industry	2,791	11
Metal, Machinery and Electronic Industry	1,384	7
Mining	1,393	6
Hotels & Restaurants	1,324	5
Food Crops & Plantation	1,223	5
Paper and printing industry	1,157	4
Construction	1,083	4
Trading & Repair	831	3
Others	3,371	14

Source BKPM

In the **cosmetics** sector, **L'Oréal** opened its **largest factory in the world** in Indonesia. With a staged investment totalling around USD 130 million, this new factory will serve as the production hub for the Southeast Asian region.

In the **furniture** business, **IKEA** has opened its first store in Indonesia in October 2014. The move marks IKEA's plan to further expand in the growing ASEAN market and entails **a total investment of USD 300 million** from 2014 to 2021.

In the **pharmaceutical** sector, **PT Bayer Indonesia** invested **USD 20 million** in the increase of its production capacity of its plant at Cimanggis in 2012. The factory serves as Bayer Indonesia's main production base for pharmaceuticals and Over-The-Counter products, which also serves countries in Asia Pacific and Europe.

In the **automotive** sector, tyre maker **Pirelli** signed an agreement with the leading Indonesian automotive components maker PT Astra Otoparts Tbk setting up a new factory in Indonesia for the production of conventional motorcycle tyres. The joint venture will invest a total of **USD 120 million** between 2012 and 2014 for the construction of a new factory that is expected to start operating in 2014. When fully operated in 2016 the production facility is said to employ 750 people.

BMW announced in 2011 that they are set to double their production capacity, diversify and increase the number of vehicle produced locally and strengthen their sales and distribution network by investing some **USD 11.7 million** in the following two years. Investments in production will involve the modernization of the assembly lines, including the installation of new tools and equipment, recruitment of new employees, as well as training.

PT Mercedes-Benz Indonesia, one of the most established European brands on the Indonesian market, has spent between **USD 26 to USD 38 million** between 2010 and 2012 to modernize its assembly plants. In their plant in Wanaherang (Bogor, West Java), they are progressively expanding the lines of models produced locally to passenger cars (e.g. the M-Class series).

6. EU industry, CSR, and Sustainable Business

The EU attaches high importance to corporate social responsibility (CSR) and encourages sustainable business practices by European companies around the world. CSR refers to companies taking responsibility for their impact on society and the environment. CSR becomes increasingly important to the competitiveness of enterprises and can bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, or innovation capacity.

The EU promotes CSR in accordance with internationally recognised principles and guidelines, in particular the recently updated OECD Guidelines for Multinational Enterprises, the ten principles of the United Nations Global Compact, the ISO 26000 Guidance Standard on Social Responsibility, the ILO Tri-partite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the United Nations Guiding Principles on Business and Human Rights. This set of core principles and guidelines represents an evolving global framework for CSR.

The EU aims at disseminating the internationally recognised CSR guidelines and principles more widely. It encourages EU businesses to ensure their positive impact on foreign economies and societies. By promoting respect for social and environmental standards, EU enterprises can foster better corporate governance and inclusive growth in developing countries.

EU companies work on CSR for a number of reasons:

- **There is often a direct benefit to profitability.** Companies that pay attention to training opportunities and well-being of employees tend to enjoy more loyalty and respect from their employees helping to ensure high productivity and product quality. In addition, efforts to minimise emissions and reduce the carbon footprint do not only benefit the environment but also cut costs and give rise to new opportunities related to the development of future technologies.
- **There is a benefit to company image and reputation.** Consumers pay increasing attention to responsible behaviour by corporations. In the age of internet, corporate misbehaviour has become more visible than ever allowing consumers to adapt consumption patterns to the extent to which corporations meet legal, ethical and economic responsibilities. Good corporate citizenship can hence have a direct impact on a company's profitability. A responsible corporate image among trade unions, NGOs, investors, local communities, and other stakeholders enhances both standing and influence of enterprises.
- **Companies act out their corporate values through CSR.** Corporate governance has come under scrutiny recently. As a result, corporate or business ethics has become more prominent and European companies have grasped the necessity of applying ethical principles to problems arising in the business environment.

Indonesia and its society benefit from the importance that EU companies place on CSR and good corporate citizenship in a number of ways:

Sustainable Employment

EU companies adopt a special social model and approach towards their employees. They have realised that employees are the greatest asset to their companies and invest across the board in the training and skills development of their employees. While such training ensures the continued growth of the companies, it also opens up opportunities for the employees themselves. A number of EU companies provide certification for such trainings and give scholarships to employees to continue their education at under- or postgraduate level, enhancing chances for employees to climb the career ladder within their company or seek lucrative employment opportunities across the industry.

Moving up the skills ladder and addressing skills gaps will be particularly relevant for Indonesia's economy in the advent of the ASEAN Economic Community (AEC) in 2015 that will enable the freer movement of skilled workers. As a joint report by the Asian Development Bank (ADB) and the International Labour Organization (ILO) highlights, the occupations projected to grow fastest are **high skill** and nearly half of the increased demand for high-skill employment until 2025 would be in Indonesia.

As part of the commitment to their employees, EU companies pay salaries that are markedly above the provincial minimum wages and provide private protection schemes on top of compulsory social contributions set by the government through JAMSOSTEK (BPJS Ketenagakerjaan). Supplementary health and life insurance as well as pension schemes are common practice among European companies. Furthermore, several EU companies provide incentives for employees through long service awards, religious bonuses above government regulation and paid overtime. Siemens Indonesia even has a soft loan facility in place, allowing employees to obtain loans without interest.

Community Development

The contributions of EU companies to Indonesia go beyond their own employees and also target local communities. Many European enterprises run philanthropic programmes aimed at engaging with the local communities and supporting local empowerment through community activities such as renovating schools and public facilities or teaching initiatives at local schools (on matters including hygiene, sustainable land use and farming, waste management, and energy efficiency).

EU companies recognise the notion of self-entrepreneurship or self-help as a core principle of their empowerment initiatives. **Lafarge Cement Indonesia** runs a programme called RUMAHKU providing access to microfinance and technical assistance to those in need. The British beverages giant **Diageo** engages in the development of Indonesia's social entrepreneurship sector through a programme called Community Entrepreneurship Challenge that has trained more than 200 communities across Indonesia from Aceh to Papua and supports entrepreneurs that drive real improvements in communities.

In addition, EU companies are committed to disaster relief and management. In the aftermath of the 2004 tsunami, EU companies helped the recovery of affected communities and engaged in disaster donation campaigns. The German logistics provider **DHL** offers humanitarian assistance through its *GoHelp* disaster management initiative that draws on the company's global presence, logistics network and the know-how of its employees. Following the earthquake in Indonesia in 2009, DHL deployed a disaster response team on the ground for 14 days.

Environmental Protection

An overwhelming majority of European companies is not only committed to people but also to the planet. EU enterprises seek to reduce the adverse impact of their business operations on the environment by cutting carbon dioxide emissions, managing waste and promoting efficient water use. Traditionally, European companies make use of the latest technologies, which allows for a cleaner production through sophisticated filter technologies for instance. Furthermore, EU enterprises are in the forefront of technological innovation and can provide technological solutions to environmental challenges in fields such as renewable energies and transport. Through its 'Environmental Portfolio' **Siemens** promotes energy efficiency from generation to use. The portfolio includes ten technology fields along the entire value chain of electrification and offer innovative products, solutions, and services in every field.

Sustainable Supply Chains

As a result of global supply chains and the division of labour, suppliers have a significant impact on the sustainability performance and the sustainable development of society. It is therefore essential that business partners fulfil the same environmental and social standards that EU companies set for themselves. The **BMW Group** for instance introduced its Supplier Sustainability Standard that applies to more than 12,000 suppliers in 70 countries and requires compliance with internationally recognised human rights, as well as labour and social standards. In order to promote a consistent implementation of its sustainability principles, the German automobile manufacturer offers seminars, training and lectures for its suppliers and has projects in place to improve resource efficiency in the supply chain. To create incentives, the most innovative suppliers are recognised with the company's Supplier Innovation Award.

TRADE AND INVESTMENT WITH INDONESIA

CO-OPERATION IN INDONESIA

7. EU Co-operation in Indonesia

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.

The EU and its Member States are supporting Indonesia's development efforts by providing around EUR 300 million for co-operation programmes per year. The financial resources are allocated to areas that are vital for future prosperity, such as education, health, governance, trade and sustainable development. In consultation with the government, EU aid for trade programmes with Indonesia focus on issues related to trade policy and improvement of the quality of infrastructure for Indonesian exports.

As one of its co-operation priorities, the EU Delegation to Indonesia supports the improvement of trade and economic conditions. The co-operation between the two partners is carried out within the framework of the trade and investment dialogue. The funds available for co-operation in trade and economic matters amounted to EUR 45 million for the period from 2007 to 2013.

Ongoing programmes managed by the EU Delegation include:

- The EU-Indonesia Trade Support Programme II (EUR 13 million) facilitating deeper integration of Indonesia into the international trade system. The programme supports compliance of Indonesian exports with international standards.
- The EU-Indonesia Trade Co-operation Facility (EUR 12.5 million) supporting sustainable economic development in Indonesia. The project's main objective is to strengthen the capacity of government institutions to pursue reform initiatives targeted towards the improvement of trade and investment climate in Indonesia, such as trade policy, investment facilitation, Intellectual Property Rights (IPR), energy efficiency, and co-operation in science and technology.
- EU small grant schemes supporting Indonesian organisations, such as APINDO, that are key actors in the improvement of the trade and investment climate in the country. The Advancing Indonesia's Civil Society in Trade and Investment Programme (ACTIVE) is a tailor-made programme for civil society organisations involved in the trade and investment sector (EUR 2.5 million). The Non-State Actors & Local Authorities in Development Programme (NSA LA) helps to promote sustainable growth and economic development at subnational level. By means of these initiatives the EU.

- The EU support programme to Public Finance Management and Revenue Administration (PFM) improving 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. While the first phase of the programme is coming to an end in 2014, a second phase is under preparation.
- The ASEAN Regional Integration Support from the EU (ARISE) facilitating the ASEAN regional economic integration process in areas such as standards and conformance, customs and trade, protection of intellectual property rights, and capacity building with a total EU contribution of EUR 15 million. Together with the Regional EU-ASEAN Dialogue Instrument (READI) supporting policy dialogues with ASEAN in non-trade related areas, ARISE benefits Indonesia as one of the ASEAN Member States.

8. Business Co-operation in Indonesia

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.

8.1 EU-Indonesia Business Network (EIBN)

EIBN was launched in 2013 and is a partnership project between five European bilateral chambers of commerce in Indonesia (BritCham, EKONID, EuroCham, IFCCI, INA) and two counterparts in Europe: Eurochambres and CCI Barcelona. Besides these seven implementing partners, the EIBN counts numerous additional Indonesian and European associated partners. The project is co-funded by the EU and aimed at promoting Indonesia and ASEAN as high potential trade and investment destinations for European companies, especially SMEs. EIBN strives to support companies from all EU28 member states in their endeavour to explore the full potential of the Indonesian market.

EIBN establishes a platform for exchange of best practices, information and knowledge. Its activities include raising awareness, organising 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. Companies are encouraged to submit inquiries to the EIBN and get access to pre-market consultation, individual market studies as well as the business partner search.

8.2 European Business Chambers of Commerce in Indonesia (EuroCham)

EuroCham is the principal European business organisation in Indonesia, which promotes European business interests and represents member companies. It was launched in September 2004 and maintains close working relationships with the European Union Delegation, European bilateral chambers of commerce in Indonesia, and European embassies in Indonesia. Considering the overall objective of the EU to support the sustainability of Indonesia's economic growth by improving its trade and investment climate, EuroCham aims to improve the market access for European companies in Indonesia through information sharing and a proactive advocacy dialogue with the Government of Indonesia.

Since its inception EuroCham has become one of the key dialogue partners for the Indonesian Government in fields important to European investors. Active dialogues with the government have been in the fields of logistics, import and export procedures including the National Single Window, taxation, import tariffs and non-tariff barriers, investment procedures, and barriers to foreign investment across various industries. EuroCham's main interlocutors in the Indonesian government are the key economic ministries, especially the Co-ordinating Ministry of Economic Affairs, Ministry of Trade, Ministry of Industry and the Ministry of Finance's Directorate General Taxation.

The work at EuroCham is mainly done through working groups that represent European business interests in their respective industry or field. Currently, there are 19 EuroCham working groups. Maintaining contact with high-ranking Indonesian officials, providing members with updates on recent developments in Indonesia's economy, and organizing events and seminars are among EuroChams' activities. European companies or enterprises with business interests in Europe can apply for membership and are welcome to contribute to EuroCham's agenda.

8.3 EU-Indonesia Business Dialogue (EIBD)

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. EIBD was launched in late 2009 and is supported by the Indonesian Ministry of Trade and the European Union. Organisers are the Indonesian Chamber of Commerce and Industry (KADIN), the Indonesian Employers Association (APINDO), and the European Business Chambers in Indonesia.

TRADE AND INVESTMENT WITH INDONESIA

EUROPEAN UNION & ASEAN

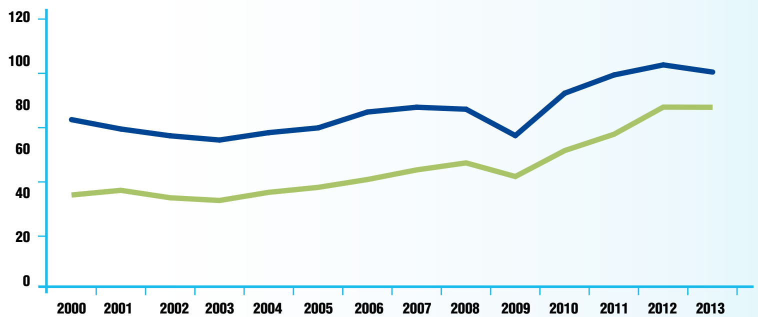
9. The EU and ASEAN

EU–ASEAN Trade and Investment Relations

In 2013, the EU was ASEAN's third largest trading partner after China and Japan, while ASEAN was the EU's third largest trading partner outside of Europe after the USA and China. ASEAN and the EU are vital commercial partners to each other with trade in goods between the two regions of around EUR 178 billion in 2013. Between 2004 and 2013, EU imports from ASEAN grew by over 40% (from EUR 69.7 to 96.8 billion) and EU exports to ASEAN rose by almost 90% (from EUR 43.1 to 81.8 billion). While ASEAN enjoys a **surplus in its trade in goods with the EU** of EUR 16 billion, the EU has benefited considerably from exports to the ASEAN's growing market comprising a population of around 600 million people.

ASEAN - EU Trade in Goods 2000-2013

(billion euro)

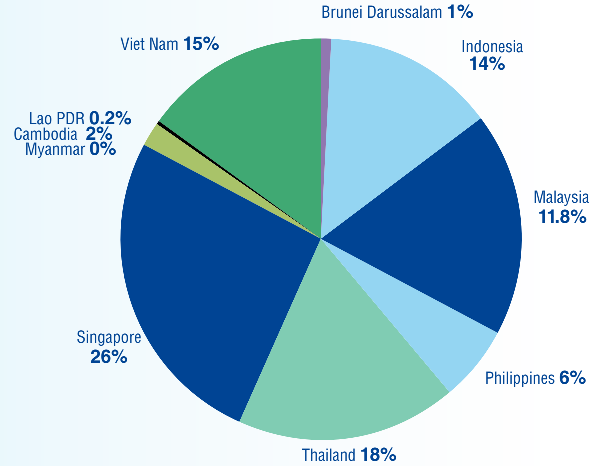


Source Eurostat

The three major export products from the EU to ASEAN are machinery and transport equipment, chemical products, and base metals. In contrast, the three major export products from ASEAN to the EU are machinery and appliances, textiles and garments, and chemical products.

At the core of the dialogue on trade facilitation and investment between ASEAN and the EU is the establishment of mutually beneficial ties that benefit all of the 1.1 billion citizens of both regions, ASEAN and the EU.

Share of total EU - ASEAN Trade 2013



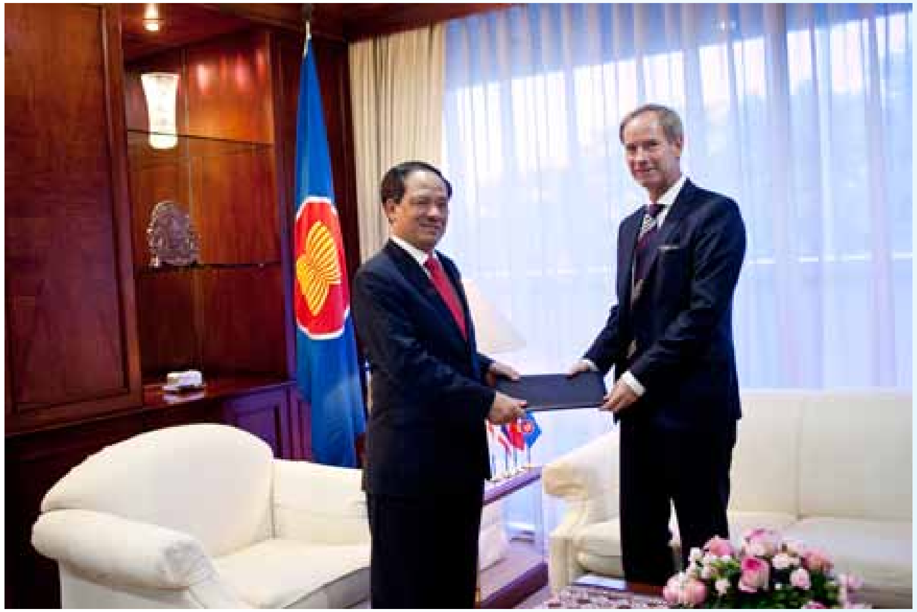
Source Eurostat

In addition to the co-operation with individual ASEAN members, the EU works together closely with ASEAN as a whole. The inter-regional co-operation is maintained through:

- The EU-ASEAN Dialogue which includes discussions on trade- and investment-related issues at ministerial and senior economic officials levels.
- Seminars conducted by the EU and the ASEAN Secretariat on topics such as regional economic integration, liberalisation of services, technical barriers to trade, and trade facilitation.
- The EU-ASEAN Business Summit taking place on a regular basis and aimed at bringing together business leaders and policy-makers from both regions.

The EU is the biggest investor in the ASEAN region with FDI inflows from the EU accounting for USD 26.97 billion or 22% of total investments in 2013. During the period of 2005 to 2012, the EU has invested an average of EUR 13.6 billion annually in the region (source: Eurostat).

Investment is a major contributor to economic growth in ASEAN Member States. For the period of 2004 to 2011, Singapore was the prime destination for FDI from the EU, followed by Indonesia. ASEAN hopes to encourage further investment by means of the ASEAN Comprehensive Investment Agreement (ACIA) that aims at creating a free and open investment regime in ASEAN. ACIA promotes the region as an integrated area and protects foreign investments. The measure is expected to boost confidence of investors in the region.



The volume of cross-border Merger and Acquisition (M&A) sales in ASEAN increased by 56% from USD 12 billion in 2011 to USD 20.1 billion in 2012. While M&A sales rose in the Philippines, Thailand and Vietnam, over 76% of the M&A transactions remained concentrated in Indonesia, Singapore and Malaysia. EU investors were the largest buyer of assets through M&A in ASEAN accounting for USD 4.3 billion or 21% of the total USD 20.1 billion.

European Business Chambers of Commerce

For more information, you can either contact the EU Delegation Jakarta or one of Bilateral European Business Chambers of Commerce, such as:

European Business Chamber - EuroCham
Wisma Metropolitan 1, 13th Floor,
Jl Jend Sudirman Kav 29,
Jakarta 12920
P: +62 21 571 0085
F: +62 21 571 2508
Email: info@eurocham.or.id
www.eurocham.or.id

British Chamber of Commerce in Indonesia – BRITCHAM
Wisma Metropolitan I, 15th Floor
Jl. Jend. Sudirman Kav. 29-31
Jakarta 12920
P: +62 21 5229453
F: +62 21 5279135
Email: bisnis@britcham.or.id
http://www.britcham.or.id

EU-Indonesa Business Network - EIBN
c/o EKONID, Jl. H. Agus Salim No. 115 Jakarta 10310
Phone: +62 21 3154685
Fax: +62 21 3155276
Email: info@eibn.org
www.eibn.org

Indonesian French Chamber of Commerce & Industry
IFCCI
Jl. Wijaya II No. 36, Kebayoran Baru
Jakarta Selatan 12160
P: + (62 21) 739 7161
F: + (62 21) 739 7168
Email: admin@ifcci.com
http://www.ifcci.com/

EU-ASEAN Business Council
1 Phillip Street
#12-01 Royal One Phillip
Singapore 048692
Tel: +65 6836 6681
Fax: +65 6737 3660
Email: info@eurocham.org.sg

Indonesian Netherlands Association – Indonesian Benelux Chamber of Commerce
Menara Jamsostek Tower A, 20th Floor
Jl. Gatot Subroto No. 38, Jakarta 12710
P: +62-21-52902177
F: +62-21-52902178
Email: ina@ina.or.id
http://www.ina.or.id

German-Indonesian Chamber of Industry and Commerce EKONID
Jl. H. Agus Salim No. 115, Jakarta 10310
P: +62 21 3154 685
F: +62 21 3155 276
Email: info@ekonid.or.id, http://www.ekonid.com/

Export Helpdesk

www.exporthelp.europa.eu

The Export 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 Export Helpdesk is easier to use.

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

The European Commission which provides the website of the Export 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 Export Helpdesk?

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

What can you find in The Export 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 meet

☑ 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

Sources

- ASEAN Statistics
- BKPM (The Indonesian Investment Coordinating Board)
- BPS
- Eurostat
- McKinsey Institute
- Organisation for Economic Cooperation and Development
- The Vision Group Recommendation for EU – Indonesia CEPA
- World Economic Forum
- World Bank
- World Trade Organisation

Important: Unless otherwise stated, tables, charts, and graphs in the brochure are based on statistics from Eurostat. Data pre-dating July 1, 2013 (accession of Croatia) refers to EU-27 only.

Czech Republic
Netherlands
Germany
Denmark
Sweden
Finland
Belgium
United Kingdom
Estonia
Latvia
Lithuania
Ireland
ATLANTIC OCEAN
France
English Channel
North Sea
Baltic Sea
Barents Sea
White Sea
Poland
Hungary
Spain
Romania
Black Sea
Portugal
Bulgaria
Luxembourg
Adriatic Sea
Mediterranean Sea
Cyprus
Italy
Greece
Austria
Slovenia
Slovakia
Malta
Croatia