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A Blueprint for Trade and Investment with Indonesia



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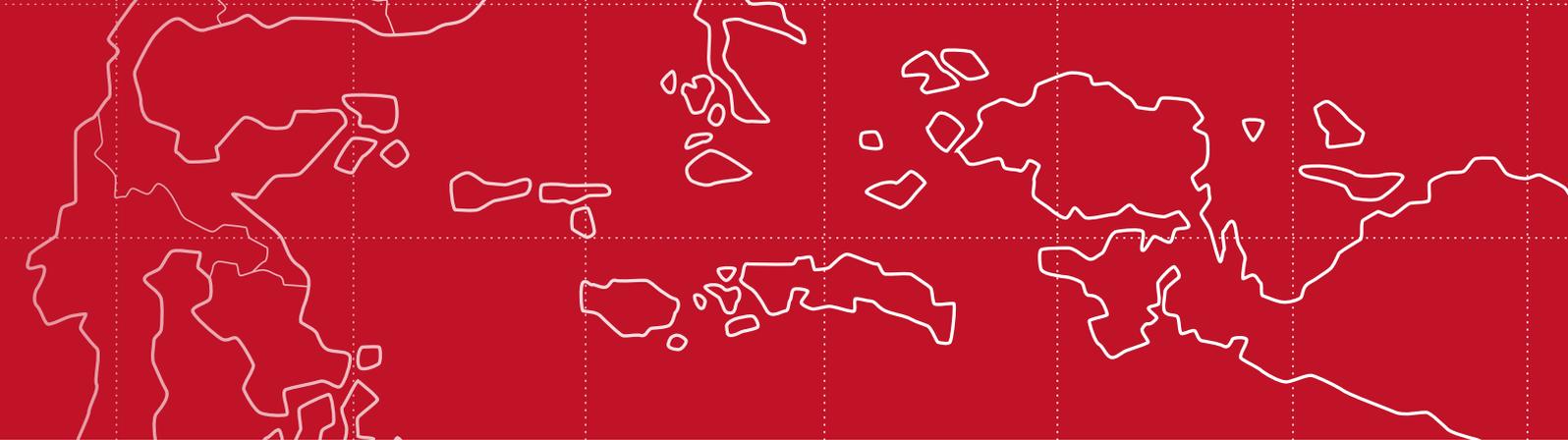
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September 2021

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Ministerial Foreword



Australia and Indonesia share a close and important bilateral relationship. We have strong economic, commercial and trade ties, made even stronger by the opportunities afforded through the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). People-to-people linkages, including cultural and academic engagements between the two nations, are longstanding, and they continue to grow from strength to strength. Our areas of mutual interest and shared vision for a stable and prosperous Indo-Pacific region also present multiple avenues to expand established partnerships and form new areas of cooperation.

Deepening Australia's trade and investment with Indonesia is one such avenue. The Blueprint for fostering this critical area of engagement outlined in this publication is designed to provide practical and strategic guidance on enriching the economic relationship with our closest neighbour in the region.

The commitment to develop the Blueprint was announced jointly by Prime Minister Scott Morrison and President Joko Widodo in February 2020. In partnership with industry groups, business organisations, academic institutions and relevant government agencies, the Department of Foreign Affairs and Trade led the development of this publication. Stakeholders and experts who contributed to the Blueprint shaped a product fit for purpose, including by offering insights and advice on fostering partnerships that would further strengthen and deepen our business engagements with Indonesia.

By focusing on key economic sectors and markets with room for growth, the Blueprint highlights where Australian businesses have capabilities and comparative advantage which align with Indonesia's priorities, needs and emerging issues. The impact of COVID-19 on both our economies has also increased the prominence of certain sectors, highlighting opportunities to collaborate in new trade and investment areas, including in the health services sector.

I thank all knowledge partners and interest groups for their valuable contributions. Your generous support in the development of this Blueprint is sincerely appreciated. The Australian Government will continue to work closely with all stakeholders as we strive to deepen our trade and investment relationship with Indonesia in the coming years.

The Hon Dan Tehan MP
Minister for Trade, Tourism and Investment

Executive Summary

Why Indonesia now

Indonesia is on track to be one of the world's ten largest economies by the mid-2030s. It will likely overtake Australia's economy at market values before the end of this decade. This transformation in such a near neighbour offers huge opportunities as Australia tries to diversify its international business links and build more resilient supply chains.

Australia is embarked on a new engagement with the world's fourth most populous country with three building blocks: increasingly complementary economies; multi-layered trade deals; and stronger security ties. But making the most of this opportunity will require a changed approach by business and government institutions. There will need to be more collaboration and knowledge sharing to manage the challenges of doing business in such a different culture and the complexities of the emerging opportunities in areas such as ecommerce and healthcare.

This Blueprint is one step towards a Team Australia approach as part of broader government and business organisation efforts to produce some early successes from the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA).

It shows the need for businesses to understand Indonesia's own development priorities as they pursue opportunities and to be open to cooperating with Indonesian counterparts in third countries.

While COVID-19 has been a major challenge for Indonesia, its economy has remained resilient compared with many peers. Although its evolving democracy and devolution of power to local areas means policy making has become more complex, Indonesia has made steady progress in governance improvements over the past decade.

The introductory chapters explain the broad context for a reinvigorated commercial relationship: pages 15–35.



ECONOMY

Urbanisation and a steadily growing middle class are new drivers of growth set to average more than 5% a year.



COMPLEMENTARITY

Services are becoming a bigger part of the economy in both countries opening new export and joint venture opportunities for Australian business.



GROWTH

More foreign investment and better use of domestic capital are key to growth and offer business opportunities.



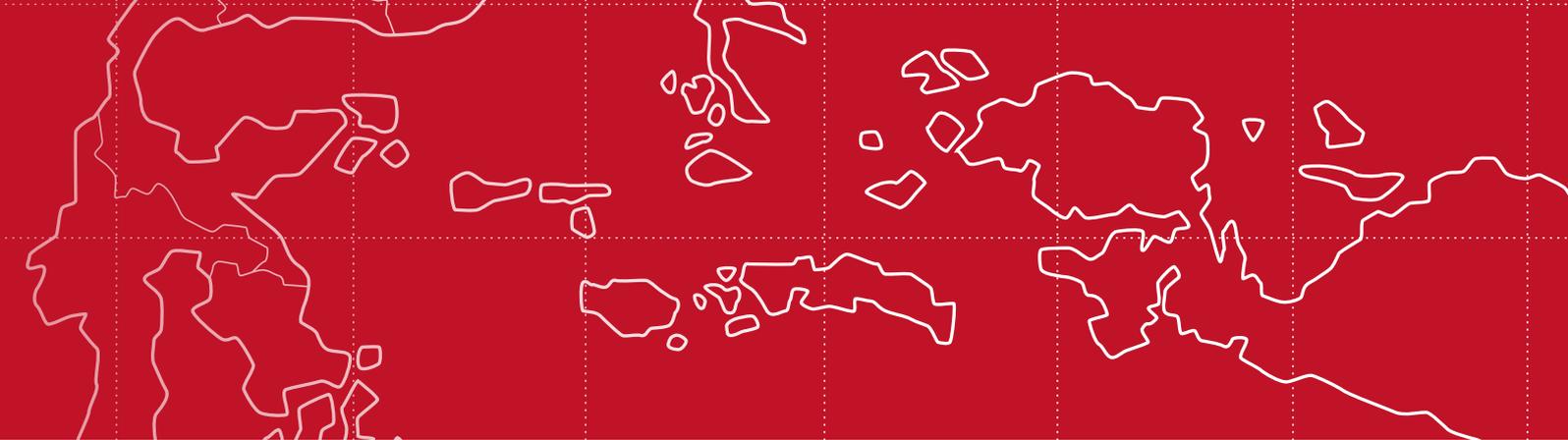
TECHNOLOGY

New technology from health to agriculture offers the prospect of innovative areas of cooperation and growth.



STABILITY

Indonesia has maintained a good record of fiscal and macroeconomic management through its democratic transition.



A new platform for trade and investment

IA-CEPA is more than a normal trade deal. It completes a three-tiered framework for business between the two countries, which removes barriers to two-way trade, increases bilateral movement of workers and drives closer collaboration through the economic powerhouse model. IA-CEPA also links Australian business into Indonesia's own development priorities.

President Joko Widodo's government has introduced a parallel Omnibus Law on Job Creation which aims to boost economic competitiveness and create jobs through labour market and investment reforms which will support some of the opportunities in the bilateral trade deal.

IA-CEPA builds on Australia's pre-existing regional trade agreement with Southeast Asian countries and dovetails with the larger Regional Comprehensive Economic Partnership. But despite this web of trade agreements, businesses still need

to build relationships, make careful choices of partners and understand the changing consumer market for any product or service they are interested in supplying.

The advice chapters explain the trade agreement openings and the broader landscape for doing business: pages 37–58, and Appendices on business culture and exporting.



TRADE

More than 99% of Australian goods exports will enter duty free or under liberalised rules with a new dispute settlement system.



INVESTMENT

Investors have won new protections and greater ownership rights helping to create a more certain investment environment.



STRATEGY

A business plan that recognises the country's economic, cultural and geographic diversity is crucial to operating there.



ECOMMERCE

The pandemic has accelerated digitisation with a broader impact on e-commerce and government service delivery.



EXPORTING

The checklist for SME exporters outlines key steps in market research, partner selection and logistics preparation.

Where the opportunities are

This Blueprint is particularly focused on new sectoral opportunities that have emerged from IA-CEPA. But it also examines how digitisation, a rising middle class and demographic shifts have changed the Indonesian business scene. These changes have meant Australian businesses should look at Indonesia through a new prism.

The analysis of opportunities in four sectors in this Blueprint – health and aged care; education, skills and training; agriculture and food; and resources and energy services – has drawn on input from across business and government. But other sectors will be covered in future with plans underway to examine cybersecurity, tourism and financial services.

The sectoral chapters explain what market changes, demographic shifts, new regulations and changing government priorities mean for Australian business entry: pages 63–149.

HEALTH and AGED CARE: Demographic and social shifts are imposing new demands on Indonesia's healthcare system. Basic universal healthcare is being expanded for the poor while wealthier people seek more premium services at home, rather than abroad. There are opportunities for Australian businesses in aged care, training for the health workforce, digital health, medical technology and modernisation of healthcare facilities.

EDUCATION, SKILLS and TRAINING: Human capital development is Indonesia's top priority to create employment opportunities and make the best use of its youthful population. Achieving this will require more international education partnerships which Australia is well placed to participate in due to longstanding education links and breakthroughs in IA-CEPA. This chapter highlights Indonesia's focus on training for food and beverage; textiles; automotive; electronics and manufacturing. But it also identifies the intersection between training and other focus sectors in this Blueprint such as health and energy.

AGRICULTURE and FOOD: The pandemic has drawn attention to food security, providing a new reason why clean and green products from Australia should prove attractive to consumers. While Australia has long sold food to Indonesia, there is now rising demand for pre-packaged, ready-to-eat-and-deliver products, marketed and ordered online. This chapter identifies specific opportunities in meat and livestock; dairy; horticulture; grains; and packaged food and beverages.

RESOURCES and ENERGY SERVICES: Indonesia is shifting from basic mining to a more industrial economy with an emphasis on the production of more downstream, higher value products. New opportunities exist in contract mining, vocational training, energy and engineering services, and mine site preparation services.

Call to action

The Blueprint has drawn together contributions from Australia's deep and diverse knowledge and expertise on Indonesia, the aim being to provide practical and strategic guidance to business. More than that, the Blueprint is a call to action to business.

The commercial opportunities outlined in the Blueprint not only highlight the key sectors and markets with room for growth but also underscore the economic areas that are of mutual interest to Australia and Indonesia. Strengthening existing cooperation and fostering new partnerships in these areas are essential parts of advancing the bilateral relationship.

While governments can and will play their part in promulgating the Blueprint, particularly when actions require the convening powers that only

governments can provide, the business community and their associated organisations are generally better placed at facilitating activities that lead to real commercial outcomes.

Chapter 12 briefly sets out a call to action to business, specifically in areas that require actions either independent of government or where business will need to take the lead or when actions have to be refined in practical ways to suit business interests, capabilities and comparative advantage.



OPPORTUNITIES

Use this report, future additional sector chapters and new Indonesian regulatory changes to identify opportunities.



ADVICE

Use the Team Australia framework being proposed by business to draw on advice from business councils, academia and other non-government institutions, and government.



PARTNERSHIPS

Understand Indonesia's priorities to help identify the right partners for business in Indonesia and other countries.



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PART 1

Overview





CHAPTER 1:

The case for a deeper partnership

As Australia looks for new growth opportunities to support near-term economic recovery and long-term economic security, the case for deepening our trade and investment engagement with Indonesia is increasing. By focusing on targeted sectors and markets with room for growth, both countries will benefit.

The case for a deeper partnership

Key points

- **New bilateral business opportunities are being created as services become a more important part of the Indonesian and Australian economies at home and abroad.**
- **Australian companies are increasingly shifting from simply selling products and services to Indonesia to finding shared value and partnerships that meet mutual needs.**
- **IA-CEPA completes a three-tiered trade agreement structure which gives Australian businesses some enhanced opportunities in our nearest Asian neighbour.**

The big picture

In the latter part of this decade Australia will face a tipping point in its half century of gradual integration with the economies of the Indo-Pacific. Its closest Asian neighbour, Indonesia, is expected to overtake it in size, measured by market prices, marking a new era in which the economic relationship between the two countries should be more complementary than in the past.

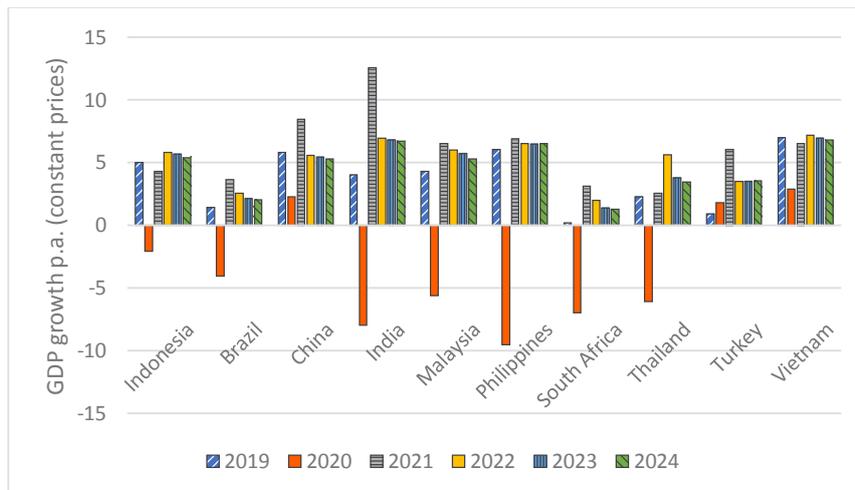
Not only is Indonesia a vast archipelago of 6,000 inhabited islands that span more than 5,000 km. It is also the world's fourth most populous country and the third largest democracy. Its 270 million population is on track to peak at 337 million in the 2060s according to the United Nations median growth projection, although under some scenarios it could continue to grow past the end of the century to around 400 million. It is becoming better educated, more urban and more employed. The population is also young, which means the economy can benefit from the demographic dividend of the working age population getting larger relative to the cohort of dependent young and older people, although this is about to plateau. Nevertheless, Indonesia's overall population will increase by about the size of the current Australian population by the end of this decade.

These demographic factors are combining to create an emerging middle and affluent class. According to the World Bank, the middle class has been growing faster than other groups; there are now at least 52 million economically secure Indonesians, or one Indonesian in every five. A further 115 million 'aspiring middle-class' Indonesians hope to join the middle class.

Middle-class domestic consumption is, and will continue to be, a major driver of economic growth contributing more than half of Indonesia's Gross Domestic Product (GDP).

The Asian Financial Crisis (AFC) left the Indonesian economy in ruins in the late 1990s. However, the country's economic performance has been stable compared with peer countries in recent years, growing at an average of just over 5% annually. The Indonesian economy contracted 2.1% in 2020 due to the COVID-19 pandemic. But the World Bank has forecast a rebound to growth of 4.4% in 2021 and 5% in 2022, while the IMF has forecast 4.3% and 5.8% in those years.

Figure 1.1: Actual and forecast growth paths in the time of the pandemic



Source: IMF (2021), 'World Economic Outlook – Update April 2021'

Indonesia's actual and forecast growth path through the 4 years surrounding the pandemic seems set to emerge as relatively less volatile on IMF projections, partly reflecting its less severe approach to mobility restrictions.

In 1998 Indonesia's GDP was US\$95 billion. Today it is the world's 15th largest economy in nominal terms and recently became just the fifth Asian member of the US\$1 trillion club. The government's blueprint *Making Indonesia 4.0* aims to see the country become one of the top 10 global economies in nominal terms by 2030.

As Australia looks for new growth opportunities to support near-term economic recovery and long-term economic security, the case for deepening our trade and investment engagement with Indonesia is increasing. By focusing on targeted sectors and markets with room for growth, both countries will stand to benefit. The opportunities for Australian businesses to align their capabilities with Indonesia's priorities and needs are growing, including the possibility to combine our advantages to create opportunities for penetrating larger regional and global markets.



A complementary economic partnership

Indonesia's economy is already significantly larger than Australia's measured in the purchasing power parity (PPP) terms preferred by international financial organisations to adjust for foreign currency differences. The point at which it overtakes Australia in the current or market terms more relevant to many businesses will depend on the countries' respective growth rates and exchange rates. But Indonesia is expected to return to a medium-term growth rate potentially almost twice as fast as Australia. While the two economies have been at different levels of development, in the past they have been largely competitive commodity exporters. Now, while still at different development stages, services play a greater role in domestic growth and potentially exports, opening up new opportunities for collaboration from vocational training to e-commerce.

The Australian context

Australia has done well over the past half a century exporting commodities to Asia. Australian agricultural products, mineral resources and services industries have benefited from economic growth in the region and fed a rapidly growing middle class.

But the 2021 report of the Business Council of Australia/Asia Society of Australia Asia Taskforce made it clear that finding new sources of growth to diversify our economic base will be vital to post-COVID-19 economic prosperity.

As a trading nation, Australia's prosperity depends on the ability to trade. With the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) that came into force on July 5, 2020 and the Regional Comprehensive Economic Partnership Agreement (RCEP) signed, Australian businesses will have access to a modern and comprehensive set

of rules covering trade in goods, trade in services, investment, economic and technical cooperation, new rules for electronic commerce, intellectual property, government procurement, competition, and small and medium enterprises.

As this Blueprint details, [IA-CEPA](#) provides opportunities to help Indonesia to improve education and health outcomes, to develop skills and technology and to build new export industries. However, future success in Indonesia will require Australian companies to shift from simply selling products and services to finding shared value and opportunities to work together, foster partnerships and meet our mutual needs. Australia's Modern Manufacturing Strategy (MMS) could, for example, be considered as a bedrock policy for building greater cooperative manufacturing efforts between Australia and Indonesia, including across the sectors addressed in this Blueprint.



A three-tiered trading partnership

The past year has seen two key pieces of a new bilateral trading relationship fall into place with the signing of the 15-member Regional Comprehensive Economic Partnership Agreement (RCEP) and the entry-into-force of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). They complement from above and below the existing ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), providing a comprehensive framework for business between the two countries and in various ways together into the broader Indo-Pacific. The way these agreements move beyond traditional goods trade underpins new opportunities discussed in this report including the powerhouse concept of third country business cooperation, the idea of a new Roaring 20s in economic development, and ecommerce.

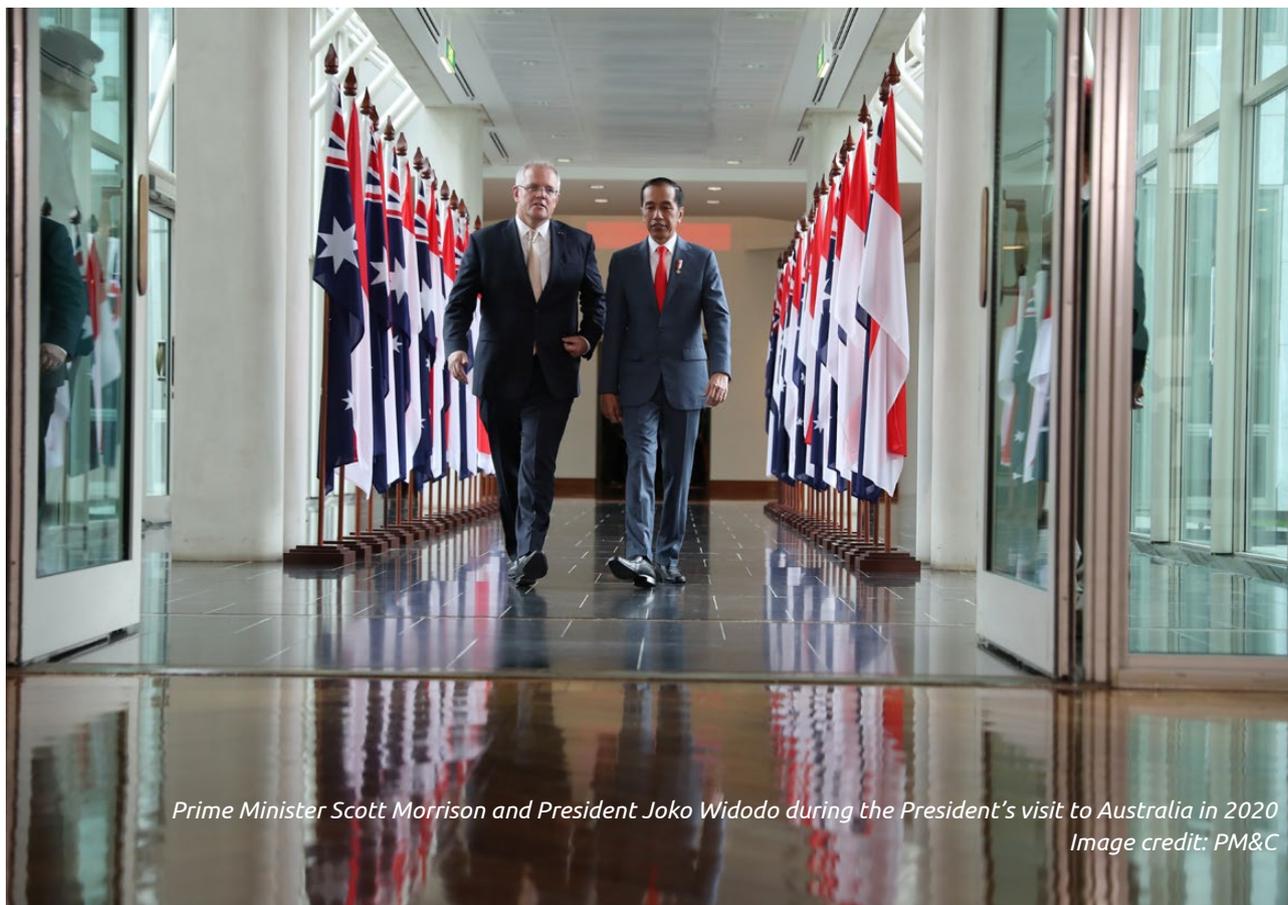
The Indonesian context

A healthy and vibrant Indonesia is, most importantly, good for Indonesians. It is also good for Australia: good in economic terms and good for our shared security interests. Indonesia has taken big steps to reform and strengthen many of its economic and political institutions, laying the foundations for two decades of impressive economic performance.

The Indonesian economy grew rapidly between 1990 and 1996, averaging a little over 7% GDP growth, and aspired to be one of the Asian Tigers. In 1997, the AFC took a greater toll on Indonesia than other Asian countries. But while the country's economy has averaged around 5% per annum growth in the years since, President Widodo believes that Indonesia should be achieving growth rates closer to the 1990s experience.

Creating jobs for Indonesians and protecting local interests takes a high priority and creates a complex business environment that is often cited as one of the barriers to faster economic growth. Indonesia now ranks 73rd on the World Bank's [Doing Business 2020](#) index – a significant improvement from 114th in 2015.

Steps continue to be taken to remove 'red tape' and help businesses with the introduction of a 'single-window' by the Indonesian Investment Coordinating Board (BKPM). The recently introduced Job Creation Law (or so called Omnibus Law) contained several measures aimed at improving the investment environment and streamlining authority to the national government over areas like permits. This is the single largest



*Prime Minister Scott Morrison and President Joko Widodo during the President's visit to Australia in 2020
Image credit: PM&C*

effort aimed at economic reform and deregulation in Indonesia in more than a generation.

Sustained growth has resulted in one of the most rapid reductions in the number of people in poverty in history. But while Indonesia is a Group of 20 (G20) country with the 16th largest economy in the world, its market GDP per capita of US\$3,870 ranks it only 103rd globally. This is behind other large regional economies like China (US\$10,500), Malaysia (US\$10,401) and Thailand (US\$7,189) but ahead of Vietnam (US\$2,785) and India (US\$1,900). Escaping the middle-income trap where countries fail to lift the economic capacity beyond lower wage manufacturing therefore remains a key challenge for Indonesia.

The long-term trend remains positive for Indonesia, but building strength and capability in the political, economic, legal and social institutions will take time. Local institutions don't have the capacity to deliver the infrastructure needed to support ambitious growth aspirations. Indonesia needs significant investment, both domestic and foreign, to achieve its economic potential, especially financial investment accompanied by skills and know-how.

Australia is well positioned to partner with Indonesia. With one of the world's largest pools of pension funds, capabilities in technology, innovative ideas, and a concentration of talented people, Australia can contribute to many of the key drivers of economic growth for Indonesia.

Confronting the economic potential

Well-established business interests would provide a vital ballast that Australia does not as yet have in Indonesia, or indeed in many economies across Asia today. Australian and Indonesian businesses are under-invested in each other and the economic relationship has yet to secure the breadth and gravitas of the government-to-government relationship. Increased trade and investment and

a stronger Australian commercial presence on the ground in Indonesia will help provide this ballast.

With bilateral trade valued at just \$16.2 billion in 2019–20, Indonesia is not even one of Australia's top 10 trading partners. Australian Foreign Direct Investment in Indonesia is just \$3.5 billion, not even 0.5% of the total stock of outward direct investment.

The operating environment in Indonesia is not straightforward. Weak institutions and opaque influence networks make the challenges for Australian companies complex. Nonetheless, businesses from many other countries, including in Europe and North America, enjoy considerable success in Indonesia despite being located far from the country and its main export markets.

The [Asia Taskforce](#) has identified eight things that successful companies do well and these can all be applied in Indonesia. There are no guarantees of success, but experience makes it clear that strategies and business models tailored to the regulations and laws of mature markets do not translate well in Indonesia.

As Asialink Business pointed out in its July 2020 report [Winning in Asia](#), Australian businesses will need to invest far more in developing Asia capabilities at the board and senior executive levels.

A 'Team Australia' approach to increasing Asian business engagement sketched by the Asia Taskforce calls for more than delegation visits. The approach outlines a stronger relationship between Australian business, government and academia, the aim being to pool together resources and talent in order to explore, develop and secure new commercial opportunities and markets in our region. This approach, which requires integrated efforts among business organisations, government entities and knowledge partners, was adopted in preparing this Blueprint.

The need for a new business Blueprint

Australia and Indonesia have built a broad relationship of cooperation spanning political, economic, security, development, education and people-to-people ties. In August 2018, Prime Minister Morrison and President Widodo announced the upgrading of the diplomatic relationship to a Comprehensive Strategic Partnership. This included an announcement that the governments had reached an agreement on IA-CEPA. The commitment to develop the *Blueprint for Trade and Investment with Indonesia* (the Blueprint) was announced by both leaders in February 2020 during President Widodo's state visit to Australia.

Four industries have been targeted as focus sectors in this Blueprint: health and aged care; education, skills and training; agriculture and food; and resources and energy services. Other sectors, including tourism, cyber security and financial services, will be added in future.

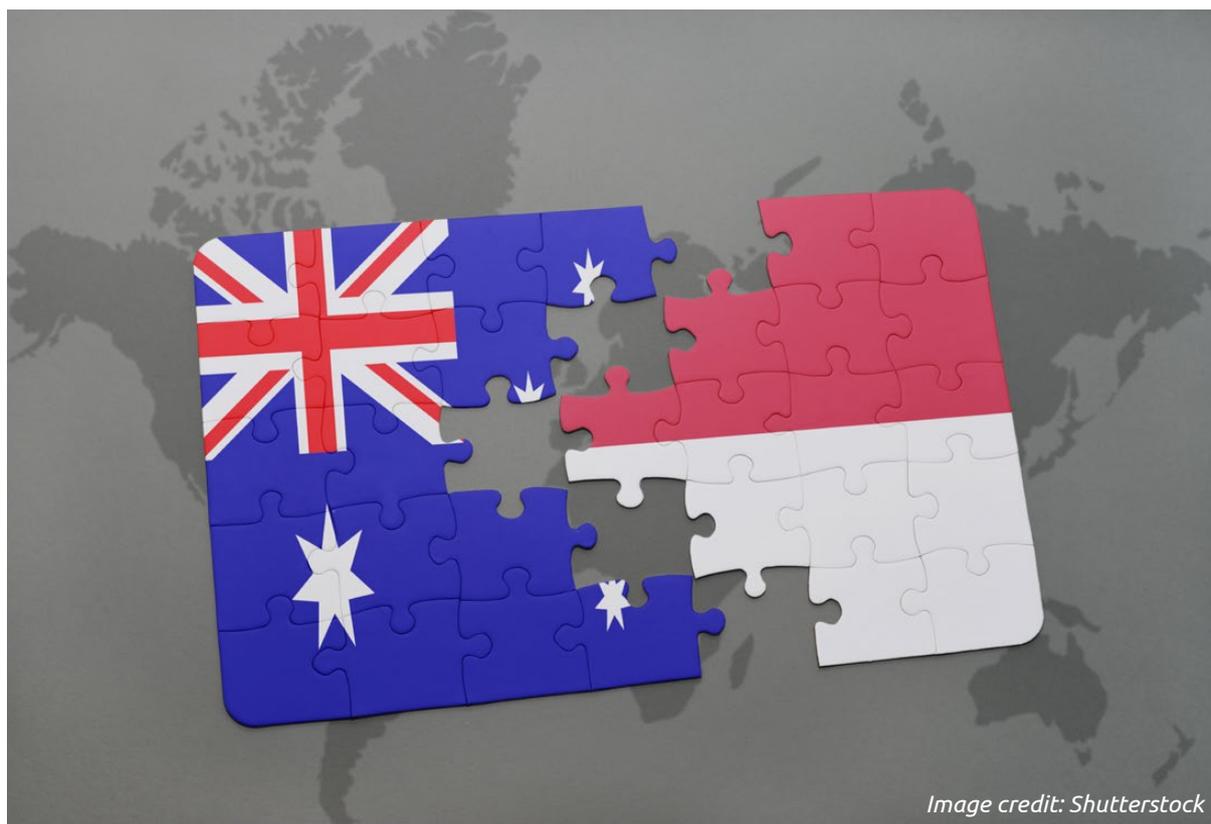
The Blueprint aims to provide business with practical and strategic guidance on trading and investing with Indonesia, including by looking at potential business opportunities in markets with room for growth. By targeting sectors of future importance, the Blueprint aims to foster business engagement in existing and emerging areas of economic cooperation and partnership. It highlights where Australian business has capabilities and comparative advantages which align with Indonesia's interests, priorities and needs.

However, like any trade deal, governments can open the door, but it is up to business to find the boldness to walk through it and do the hard work required to develop the strategy to identify and capitalise on opportunities.



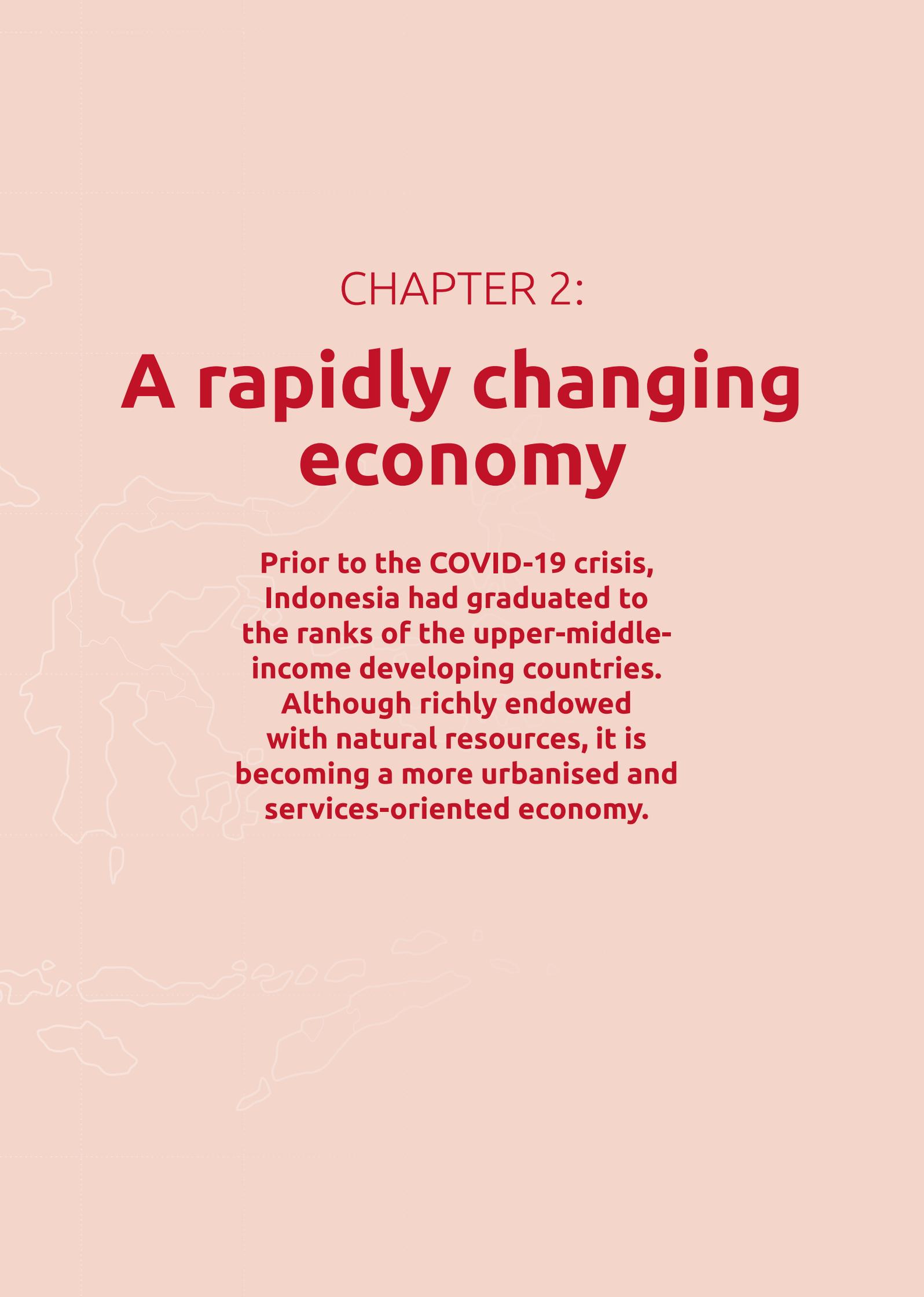
A multifaceted strategic partnership

Trade and investment between Australia and Indonesia is built on more than half a century of diplomatic and personal relationships which have their roots in Australian support for Indonesian independence in the 1940s and two-way education links which grew around the Colombo Plan in the 1950s. In more recent years the countries formalised security cooperation in the 2006 Lombok Treaty and broadened that cooperation in the 2018 Comprehensive Strategic Partnership. They are close diplomatic partners in regional organisations such as the East Asia Summit and at the global level as the only members of the G20 leading economies from the broader Southeast Asian region. They are regular members of newer, often informal security groups in the region including the Australia, India and Indonesia trilateral and Bali Process on people smuggling.



Focus: A relationship for the Roaring 20s

The parallels between COVID-19 and the 1918 Spanish Flu pandemic have also sparked discussion about how the associated economic downturn then was followed by a period of fast growth: the Roaring 20s. If electricity was the new general-purpose technology of that era, the forces powering the 'fourth industrial revolution' such as artificial intelligence, machine learning and data science are the parallel technologies that could provide dramatically higher productivity in a new Roaring 2020s. These digital technologies could also play a transformative role in the bilateral business relationship if Australian innovation can be combined with Indonesian industry partners in manufacturing; mining technology and energy; health; cybersecurity; agrifood; and education. In what is known as the powerhouse concept, the countries would combine their comparative advantages to create new competitive advantages ultimately to also sell into third countries. Both Australia and Indonesia are uniquely positioned to benefit from the global clean energy transition. As the regional market for electric vehicles takes off, partnership opportunities are emerging that will enable both countries to move up the value chain, establish new industries and jobs, create export-ready technologies and boost strategic metal independence. As the current pandemic has focused attention on health and nutrition, agricultural exports as inputs for value-added food manufacturing will remain important, and their trade will be transformed by digital technologies including blockchain-based provenance systems that provide payment security, just-in-time financing and traceability. This, together with the application of pioneering Australian agritech and precision health innovation to Indonesian market challenges, will open up new powerhouse opportunities in the agrifood space. All these powerhouse opportunities reflect key strategic actions identified in a recent report by CSIRO and Austrade on [Global Trade and Investment Megatrends](#). This report suggests that Australian companies acting now to boost exports of critical minerals, food and agritech, digital technology and disaster-tech represent the surest path to recovery for the Australian economy with key trade and investment partners such as Indonesia.



CHAPTER 2:

A rapidly changing economy

Prior to the COVID-19 crisis, Indonesia had graduated to the ranks of the upper-middle-income developing countries. Although richly endowed with natural resources, it is becoming a more urbanised and services-oriented economy.

A rapidly changing economy

Key points

- **Indonesia has achieved steady, and sometimes rapid, economic growth in recent decades, and will likely return to this trajectory in the post-COVID-19 environment.**
- **In the democratic era the Indonesian Government has presided over stable and predictable macroeconomic management. Economic policy is made by multi-party coalition cabinets in which no one party commands a parliamentary majority.**
- **The resource-rich country is evolving into a services-oriented economy, centred mainly in Java and a few other major economic centres. Infrastructure, education, health and IT-related services are all likely to grow rapidly.**

An overview of the economy

The World Bank officially elevated Indonesia to the ranks of the upper-middle-income developing economies last year, based on its steady annual growth rate averaging about 5% per annum this century. It is the world's seventh largest economy, based on purchasing power parity (PPP) calculations. Although richly endowed with natural resources, it is becoming a more urbanised, services-oriented economy with a steadily growing middle class. The world's largest archipelagic nation state, it features great social, demographic and environmental diversity. The island of Java is about 6% of the total land area, but it generates almost 60% of GDP, and is home to approximately 56% of the population. Greater Jakarta generates almost one-third of national GDP.

The social and economic impact of COVID-19 has been severe and 2020 was the first year of negative economic growth this century. However, economic and social interventions have curtailed the impact and there are good prospects for a resumption of economic growth from the second half of 2021.

Where the economy is expected to head

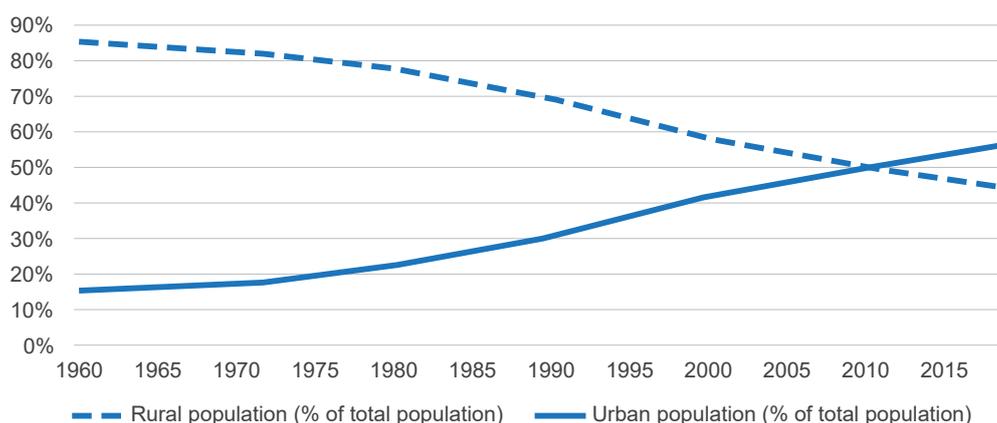
While the quantum of economic recovery in the middle of a pandemic is difficult to predict, the World Bank says a growth rate of 5.1% is likely in the medium term, which implies a doubling of per capita income every 20–25 years. There is every prospect that the government's objective of becoming a high-income economy around the middle of this century will be realised. Indonesia would then rank as the world's fourth largest economy, behind China, India and the United States.

Services are already Indonesia's major economic sector, and this trend will be further accentuated depending on how well the country recovers from COVID-19. Despite the government's attempts to incentivise domestic agricultural production, the shift away from agriculture will continue, and Indonesia will become a highly urbanised country.

The 270 million population is set to peak at 337 million in 2067, according to the United Nations median projection. The growth rate has already declined from about 2.7% a year in 1970 to below 1.25% now in the median projection. But that still means the population will grow by about the size of the Australian population over the next decade. Its capital city, Jakarta, and its surrounds will likely have a population similar to that of Australia even if the country's administrative capital is moved to

a remote (yet geographically central) Kalimantan location, as President Widodo has said he would do by 2024. Several other cities will have populations of more than 5 million people. Much of the central island of Java will then have a population of more than 200 million people and will largely consist of urban and semi-urban settlements. It is unclear when the proposed new capital will proceed, although the government says work will resume in the post-COVID-19 era.

Figure 2.1: Rural and urban population share



Source: World Bank

Economic policy settings

The institutional settings that underpin economic policy making reflect the fluidity and dispersed authority of a young democracy. The president and vice-president are directly elected, as part of a multi-party political system, and they can hold office for a maximum of two 5-year terms. No single party generally has a majority in the lower house, the Dewan Perwakilan Rakyat (DPR), and therefore the president needs to establish a 'rainbow coalition' of parties in order to pass budgets and laws. Consequently, the quality and orientation of cabinet appointees reflect the political compromises inherent in a multi-party political coalition. Nevertheless, there has been a clear tendency to appoint highly qualified professionals to the key positions of Finance Minister and central bank governor.

During the post-1999 democratic era there have been two other major developments. The first is the establishment of several extra-parliamentary institutions, such as the anti-corruption commission (known by its acronym KPK), and various regulatory agencies such as the Competition Commission (known by its acronym KPPU). Second, beginning in 2001 Indonesia introduced far-reaching

decentralisation to subnational governments which now encompass 34 provinces and 514 districts, cities or villages. About one-third of the national budget now flows through to these subnational governments with most allocations in the form of automatic, formula-driven transfers.

The major consequence of these institutional innovations is that policy making authority is more dispersed amongst three levels of government and policy reform is typically a slower process than previously due to more stakeholders (see *Focus on governance* below).

Macroeconomic policy settings

Macroeconomic management is cautious and prudent. Apart from the special and short-lived case of the 1997–98 AFC, this management has underpinned the country's five decades of steady economic progress. Inflation is moderate, the exchange rate well managed, and public debt sat at modest levels prior to COVID-19 and remains sustainable in the long term, even after significant spending to support the economy during the pandemic.

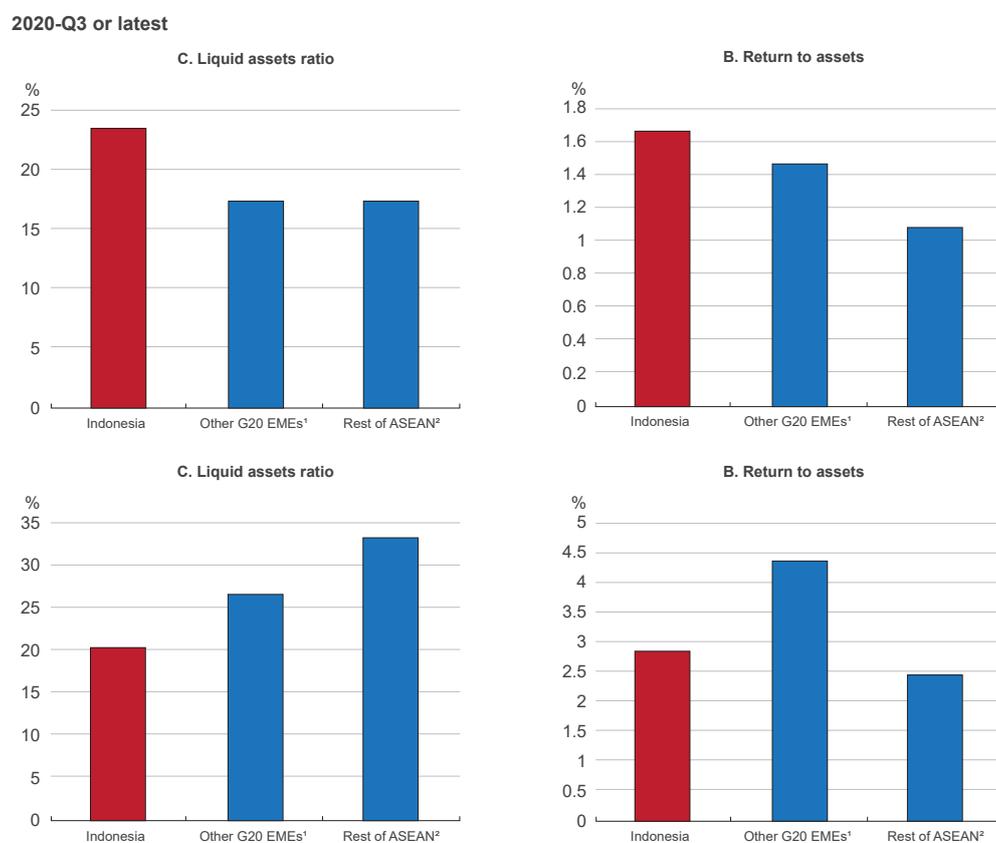
The macroeconomic policy settings established in the wake of the 1997–98 crisis have served the country well. In 1999, the central bank, Bank Indonesia (BI), was given professional and operational autonomy and a floating exchange rate regime was adopted. Fiscal policy is implemented through the 2003 Fiscal Law, which specifies a maximum 3% of GDP fiscal deficit and 60% public debt, although the 3% cap was prudently suspended in 2020 to allow the government to address the fallout from COVID-19.

Fiscal discipline, economic growth and modest receipts from the sale of distressed assets from the AFC have led to a successful fiscal consolidation this century, with public debt falling quickly from 100% of GDP at the time of the Asian crisis to around 30% of GDP pre-COVID-19. Nevertheless, substantial macroeconomic challenges remain. Until recently inflation has been somewhat higher than its major trading partners, necessitating frequent nominal exchange rate depreciations to restore competitiveness. The government has also struggled to develop a revenue base that is sufficient to provide the goods and services that the community expects.

This is especially so in periods of low commodity prices, when tax revenues have been roughly 12% of GDP. In 2020 revenue fell to below 9% of GDP and is forecast to remain so for at least the next two years. Persistent subsidies, especially for petroleum products and electricity, have further squeezed government capacity.

The government's macroeconomic policy institutions have responded effectively during the COVID-19 crisis. Beginning in February 2020 the authorities quickly introduced a range of emergency measures. BI first stabilised monetary and financial conditions, then announced its intention to act as a last-resort buyer of government securities. From April the Ministry of Finance announced a range of fiscal stimulus measures designed to provide increased social protection, additional health sector resources, and enterprise support. It was able to finance these measures through a temporary relaxation of the Law that limited budget deficits to 3% of GDP, supplemented by BI bond market operations and some support from international financial organisations and donors (including Australia).

Figure 2.2: The financial sector compared



Note: 1. Values for other G20 EMEs refer simple average of Argentina, Brazil, China, India, Mexico, Russia, Saudi Arabia, South Africa and Turkey in all panels.
2. Values for rest of ASEAN refer to simple average of Brunei Darussalam, Cambodia, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam in all panels.

Source: IMF Financial Soundness Indicators.

Source: IMF Financial Soundness Indicators/OECD 2021



Image credit: Shutterstock

The labour market

Indonesia has a labour force of approximately 135 million people, and it is growing at about the same rate as the population as a whole. Before COVID-19 the official unemployment rate was about 5.5%, but this elastic definition of employment (at least one hour of work in the reference period) conceals extensive underemployment. Youth unemployment is about three times the aggregate rate, reflecting job search and education/labour market mismatches. Roughly 40% of the workforce is in the formal sector, including the large public sector. About 10% of the workforce has a tertiary qualification, a figure that is growing rapidly. Male labour force participation exceeds that of females by about 25 percentage points.

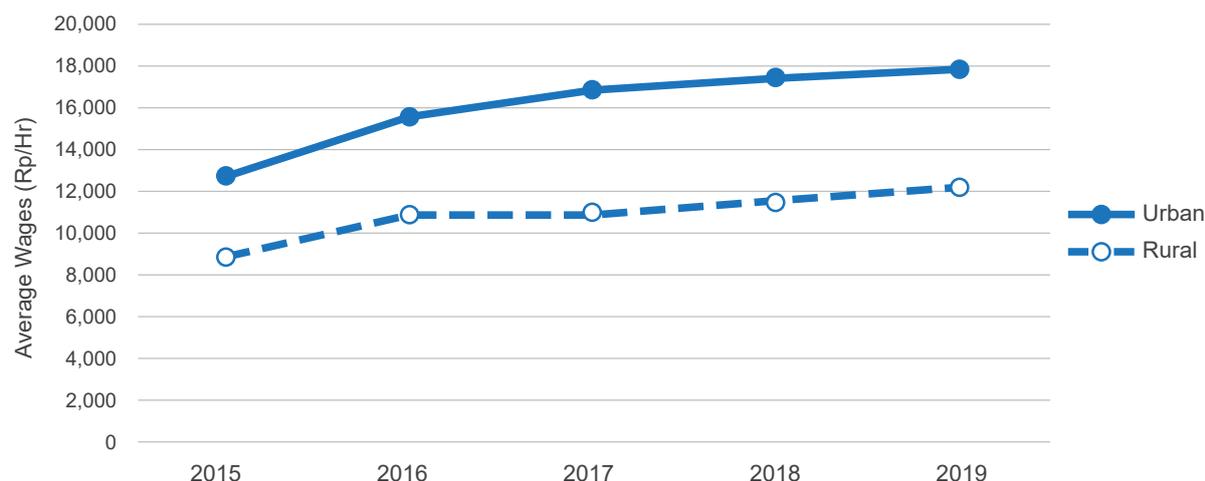
The employment market is experiencing rapid structural transformation. Consistent with the process of economic development, workers are shifting out of low productivity agriculture and into industry and services. The labour market has also become more formal, more urban, older, and (slowly) more female. Interregional labour

market mobility has also increased as transport has improved. Democracy ushered in a significant change in regulation of employment, leading to increased labour market populism. Although there was an increase in worker freedoms, regulated minimum wages rose rapidly, and the government introduced one of the most onerous severance pay requirements in developing Asia. This issue is partially addressed in the new Job Creation Law. The result has been much slower formal sector employment growth, increased separation between the relatively well-off and protected formal sector workers alongside the vast informal sector characterised by low earnings and insecurity, and increased wage inequality. Mismatches between the labour market and the education system have further exacerbated these problems of underemployment and wage inequality.

Unemployment has increased during the pandemic to its highest level in a decade at 7.07% in August 2020, although by February 2021 it had fallen to 6.26%. There is also evidence of greater job losses in larger cities than smaller cities, with a potential urban to rural drift especially as international migrant workers return to rural areas.



Figure 2.3: Average wages in rural and urban areas (rupiah per hour)



Source: BPS (Statistics Indonesia)

Priority sectors, broad structural reform, the 2020 Omnibus Law

Indonesian development priorities are set out in the 20-year National Long-Term Development Plans (RPJPN), which are developed in more detail in the 5-year National Medium-Term Development Plans (RPJMN). While the RPJMN documents tend to be statements of broad intent and aspirational directions, they do contain some specific targets that are indicative of a current administration's policy directions, especially as they are typically released at the outset of a 5-year presidential term. The current RPJMN covers 2020–24. It projects annual GDP growth at 5.4–6%, well below the ambitious (and unrealised) 8% target in the 2015–19 RPJMN.

In addition to the RPJMN, the government has since unveiled priorities, including industrialisation and the “Green Indonesia” initiative to promote environmental education and sustainability in schools. Supply-chain impediments have been a significant historical challenge for Indonesia, with higher logistical costs than some peer countries due to the fragmented nature of the market, overlapping regulation, and less-than-optimal connectivity and infrastructure. Connectivity and infrastructure are therefore major priorities. This is the context for the new capital city, along with major investments in roads (both urban mass transit and major connecting trunk roads), rail, ports and airports. Ports and airports continue to receive high priority in order to connect the 6,000 inhabited islands, and maritime sea routes are a new focus. Tourism, green fuel, education, health and social assistance are also identified as priorities.

In addition to these broad overarching priorities, the government sets a range of implicit and explicit sector-specific objectives, many focused on developing downstream industries, such as shifting from exporting raw materials to processing those materials domestically in order to reduce imports. Many of these are continuations of existing programs under new labels. Examples include the following.

State-owned enterprises (SOEs) are major commercial actors in Indonesia, including spearheading commercially riskier developments in key sectors identified as “must-haves” by the government, such as mining. They receive widespread public support due to the perceived need to balance high levels of foreign ownership. Investors need to be aware of the political support for SOEs.

Information technology (IT) services are spreading rapidly to provide the infrastructure for online retail, distribution, payment systems, and social media. But the sector lags more advanced neighbours in coverage and service quality. It has also yet to develop a significant international commercial presence in business process outsourcing on the scale of India and the Philippines. However, the system has held up well during COVID-19 as workplaces and educational institutions rapidly transitioned to home-based IT usage. Given the country's archipelagic geography, IT will continue to be a priority.

The finance sector is also evolving rapidly, with the use of mobile telephony, payment systems, and other services. Despite these new developments, the formal banking system is state dominated, with three of the four biggest banks state-owned.



International trade settings and cooperation priorities

Indonesia is a moderately open economy. Import tariffs average around 7%, alongside an array of non-tariff measures, principally in agriculture and heavy industry. It welcomes foreign direct investment (FDI), subject to foreign ownership and sectoral limits. It now has three trade agreements with Australia covered elsewhere in this Blueprint: AANZFTA since 2010, IA-CEPA since 2020 and RCEP which is due to be ratified. 'Resource nationalism' has been an intermittent policy priority. As a result, relative to the size of its economy, Indonesia receives less FDI than the more outward-looking ASEAN economies. It is a significant labour exporter, but retains a restrictive approach to the employment of foreign nationals.

The catastrophic financial collapse of 1997–98 ushered in stronger prudential financial regulations under the Financial Services Authority (known by its acronym OJK), and a return to state-owned banking.

The Job Creation Law is designed to boost economic competitiveness and create jobs through labour market and investment reforms. One of the Law's aims is to address employer grievances with the various labour regulations that discourage firms from hiring permanent employees. Since 2001 the growth of minimum wages, that are set at the subnational level, has outstripped productivity growth, while Indonesia has some of Asia's most restrictive employee retrenchment regulations. The result has been sluggish formal sector employment growth for two decades. The Law didn't go as far as some employers would have preferred but has still attracted vigorous public protests from opponents (see Chapter 4: The investment opportunity).

Historically Indonesia's major exports were agricultural and mining products, particularly rubber and petroleum. Manufacturing exports began to take off in the 1980s. This century, thermal coal, palm oil and gas have been the most dynamic exports, while manufacturers have lost some of their earlier dynamism. Service exports centred on tourism have become increasingly important. The resource-intensive export structure has resulted in strong economic complementarities with resource-poor Northeast Asia, initially Japan, followed by the Asian newly industrialised economies, and more recently China (and to a lesser extent India). Its major investors are now also mainly East Asian, including its ASEAN neighbours Singapore and Malaysia.

Other economic development issues

The health system and outcomes

Health outcomes have been improving significantly. Over the past two generations, life expectancy at birth has risen by more than 20 years. Infant mortality has fallen dramatically over the same period and is now about one-sixth of the rate in the 1960s, but infant and maternal mortality rates are still the highest in Southeast Asia. Now amid the continuing existence of communicable diseases such as tuberculosis, contemporary Indonesia is facing simultaneous new health risks from non-communicable and chronic conditions, including obesity and diabetes. Significant challenges remain due to a complex and decentralised

health system. Government investment in the health system has been low, at little over 1% of GDP. This has risen after COVID-19 and a commitment made that at least 5% of the budget be allocated to health, but most of the increased spending so far has been vaccine related (see *Focus on COVID-19* below). The health system is examined in detail in Part 2.

Poverty, including COVID-19 impacts

Indonesians are now better fed, educated and housed, and they generally live longer lives than ever before. Poverty incidence has fallen quickly mostly driven by the overall economic growth rate.

The percentage of the population with estimated consumption below some sort of acceptable minimum standard (or headcount poverty) has fallen from about 60% in the late 1960s to below 10% pre-COVID-19. These poverty estimates depend on the definition of poverty itself. Most Indonesian households are clustered quite close to the poverty line, and therefore relatively minor interruptions to earnings or unexpected health events such as COVID-19 can push people into poverty. Since the AFC the government has begun to introduce targeted social safety net programs including subsidised rice, scholarships, health insurance and conditional cash transfers. The programs are still modest in scale, effective monitoring is still a work-in-progress and targeted outcomes are mixed.

The pandemic has reversed the recent progress in poverty reduction. Significant numbers of vulnerable non-poor households appear to have been pushed into poverty. Among those who have lost their incomes, urban dwellers in precarious employment, women and lower skill workers appear to have been the most adversely affected. Nevertheless, about 90% of the poorest 40% of households report receiving at least some social assistance, from the government and various philanthropic programs, since poverty reduction has been driven by the economic growth rate over time.

Figure 2.4: Change in income share held by income group from 2000 to 2018

	GNI (USD Billions)	Income Group				
		Lowest 20%	Second 20%	Third 20%	Fourth 20%	Highest 20%
2000	122.45	8.3%	12.4%	16.3%	21.8%	41.2%
2018	1,029.24	6.7%	10.5%	14.9%	21.7%	46.2%

Source: World Bank

Gender inequality

Significant gender gaps remain in education, the labour market and the corporate world, and Indonesia has experienced rising inter-personal inequality over the past two decades. Nevertheless, its gender gaps are smaller than for practically any other Muslim-majority country. Moreover, Indonesia does not have the substantial gender birth disparities evident in some major Asian countries. Male and female literacy rates are broadly similar, as are enrolment rates at all levels of schooling. At the tertiary level, female enrolments now actually exceed those of males. Female labour force participation has also risen since the 1960s, especially during the manufacturing export boom, when younger women were drawn into the factories in large numbers. However, female employment share growth has stalled in recent years and it remains lower than that in comparable middle-income ASEAN economies.

Human capital development

Education indicators are improving. The government is close to achieving its target of universal junior secondary education (9 years of schooling), and has announced its aspirational

goal of full secondary education for all its citizens. As noted, gender disparities for schooling access have been largely overcome. According to the international Barro-Lee estimates Indonesia's completed years of schooling for its adult population now exceed 7 years. This is a dramatic improvement on 1960, when it was just 1.1 years. Nevertheless, challenges remain. Apart from select elite urban schools, quality remains low. Most international test comparisons, such as the TIMSS and PISA, rank Indonesia poorly among comparable middle-income economies. A similar outcome is evident in universities, where the new emphasis on increasing the number of students has resulted in just three Indonesian universities being ranked within the top 100 for Asia. The proportion of semi-skilled workers has been declining in recent years in what the World Bank has described as a "hollowing out" of the workforce when the country is trying to move up the value chain. President Widodo has made reforming technical and vocational education and training a priority by encouraging better links between industry and both vocational high schools (SMKs) and tertiary level polytechnics. Education and training are covered in detail in Part 2.

Environmental challenges

Indonesia is grappling with many serious environmental challenges. Jakarta experiences significant flood events on a regular basis. (This is a factor in the planned move of the national capital to Kalimantan.) Around the country, fatal mudslides occur quite frequently, as a result of upland deforestation and unchecked population settlements. The forest cover is receding, often replaced by mono-crop agriculture, accompanied by unsustainable pesticide and fertiliser use. The country's vast maritime resources, especially its fisheries, are stressed. Urban air quality is deteriorating.

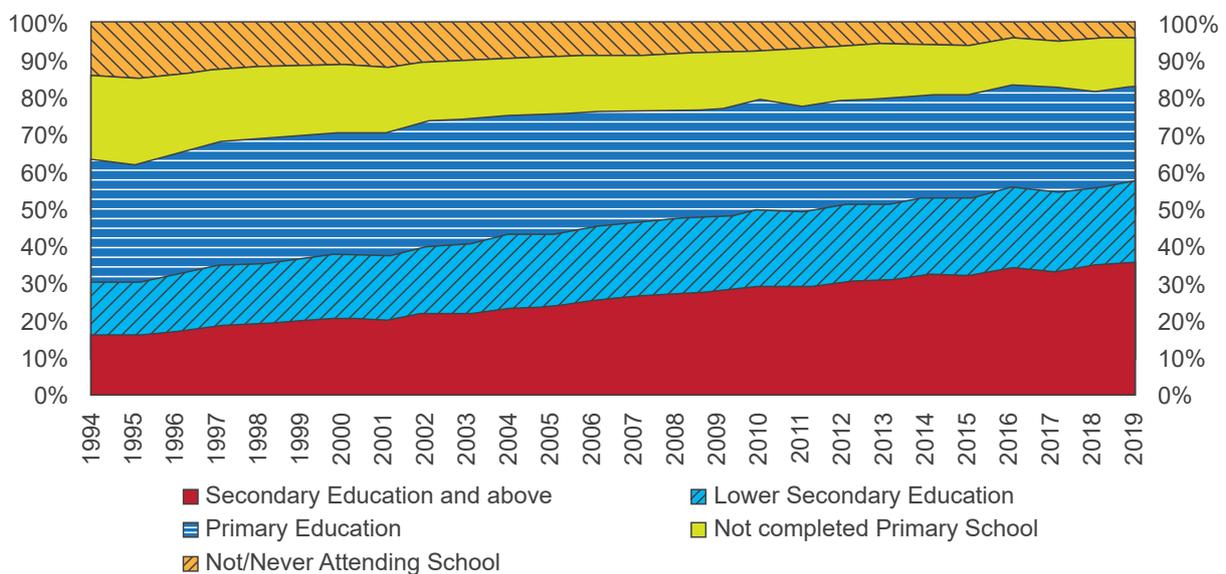
However, the rising incidence of catastrophic environmental events is elevating the political importance of the issues, and the government and civil society are beginning to address these challenges. The mass rail transit systems in Jakarta and other major cities that are now under construction will improve air quality. Sustainable forest practices are gaining more support in the corporate world. Satellite and other surveillance technologies facilitate better monitoring of forest loss and maritime exploitation. The gradual phasing out of fossil fuel subsidies is encouraging greater fuel efficiency.

Looking to the future

As with all countries Indonesia's major current challenge is to manage the COVID-19 crisis and its aftermath. While it suffered its first year of negative economic growth in 20 years in 2020, the contraction has been about half that of many other middle-income Asian economies. Looking to the future, Indonesia will benefit from its strong

economic ties with East Asia, the world's most dynamic region and the one that is likely to recover the most quickly in 2021 and beyond. The Widodo administration will then be able to refocus on its agenda of accelerating economic growth and human capital development.

Figure 2.5: Education level achieved for people over 15 years of age



Source: BPS (Statistics Indonesia)

Focus on COVID-19

The COVID-19 pandemic has placed an enormous strain on Indonesia and is testing the capabilities of its health system. Public health interventions to mitigate the spread of the disease have varied across the country. Densely populated areas with crowded living conditions have been most at risk. High numbers of people with underlying health conditions as well as limited access to clean water and basic sanitation further compounded the situation in some areas. The key factor impacting recovery will be ongoing uncertainty as to how prevalent the disease is, and whether mitigation strategies are sufficient. Applying a health response across the decentralised government structure is also proving to be challenging. However, the pandemic could be a rare opportunity to address reform in the health sector, which has been seen as a critical constraint on long-term development. The government's health sector budget for 2020 was increased and reforms in the health system was made a priority agenda for 2021.

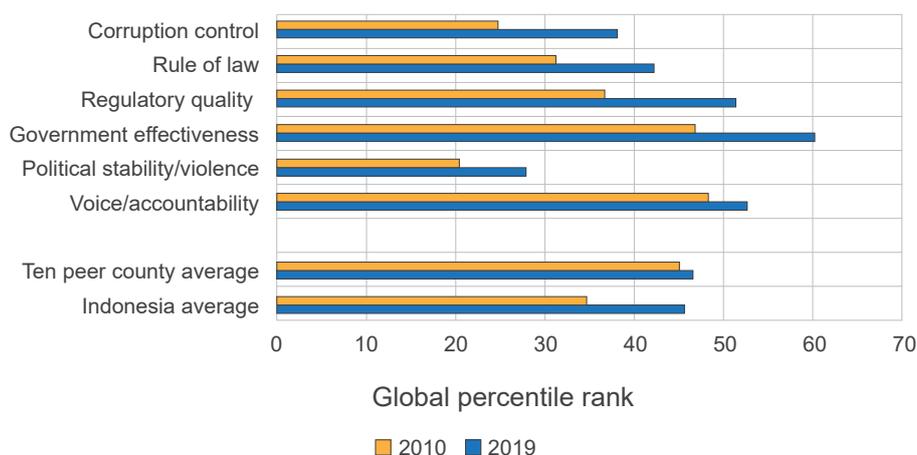
Indonesia's economic policy response to the pandemic has been substantial, though smaller than some other emerging Asian economies. Financial constraints – low tax collection rates (as a percentage of GDP) and reliance on international portfolio capital flows to fund budget deficits – limit the range of available policy responses. These constraints have so far been mitigated by securing central bank and external partner financing, but in the longer term Indonesia's economic recovery will be influenced by international financial markets' confidence in the country. Government finance is the key to maintaining aggregate demand and supporting firms to prevent long-term economic scarring. Indonesia's financial sector has held up thus far and the government is prioritising financial stability. Its actual and projected growth rates during 2020 and 2021 are less volatile than most peer countries which have also mostly imposed tighter mobility restrictions.



Focus on GOVERNANCE

The diffusion of power amid new forms of accountability in democratic Indonesia has changed the climate for new foreign business entry in ways for which there is no single or straightforward assessment system. But an examination of four well-established, economically focused global governance surveys shows that while Indonesia is generally in the middle of a group of ten peer countries, it has generally made positive progress in the past decade. The peer countries are China, India, Thailand, Malaysia, Vietnam, Philippines, Brazil, South Africa and Turkey.

Indonesian governance change compared



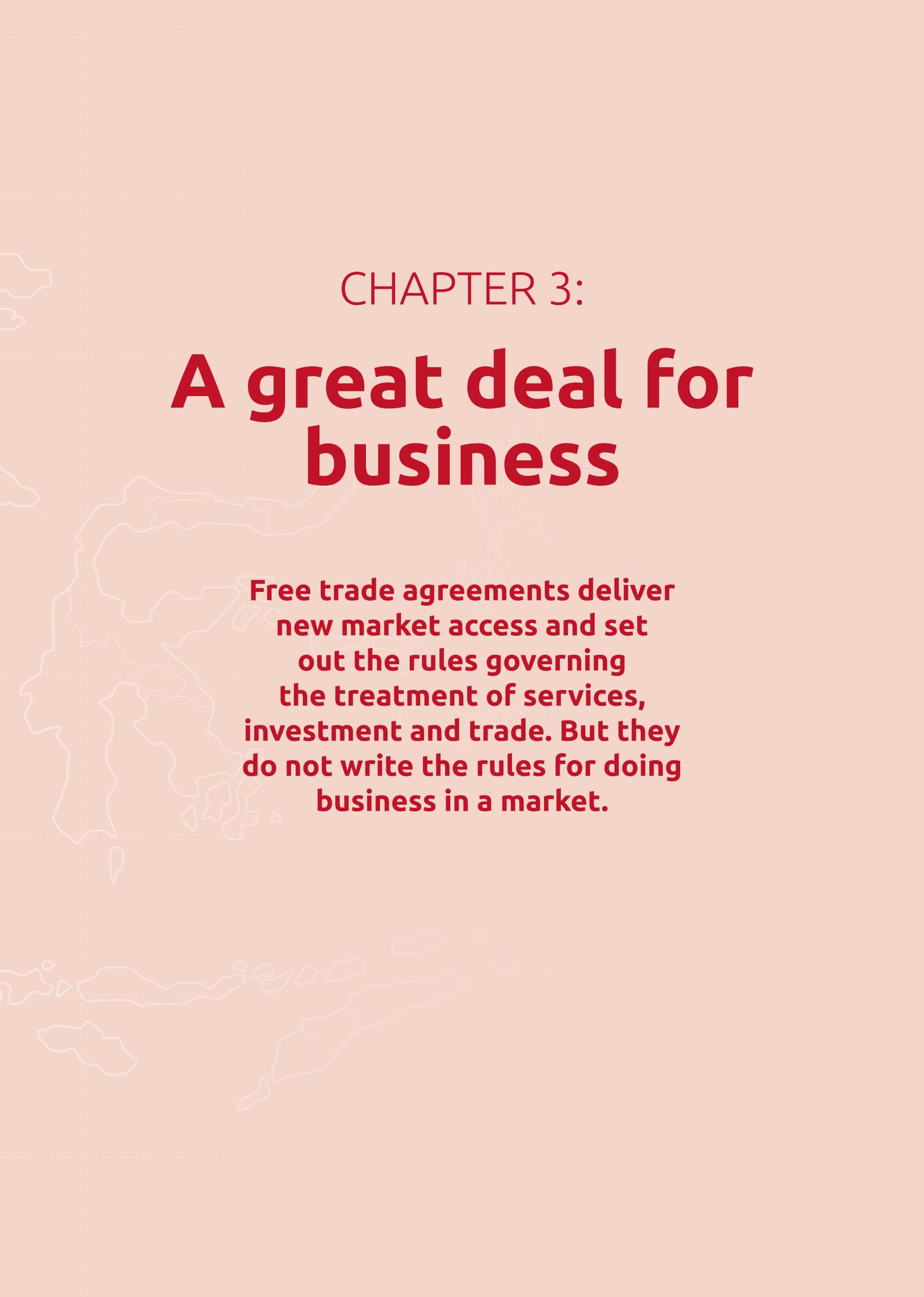
Source: World Bank Worldwide Governance Indicators

The World Bank's Worldwide Governance Indicators measure six aspects of governance. In 2019 Indonesia ranked in the middle of the peer group for voice and accountability; political stability and violence; government effectiveness; and regulatory quality. But it ranked at the lower end for rule of law and corruption control. More notably, Indonesia was the only country of the ten whose score had risen in all six categories over the decade.

In the 2020 Transparency International Corruption Perceptions Index Indonesia's score (37) and rank (102) dropped significantly below the roughly median position out of 180 countries it held in 2019, which had been its best performance in this measure. The fall is a reversal of steady positive progress over more than a decade. When compared with its nine peer countries over the past 8 years of the current index, Indonesia is below the group average but has improved more than any country apart from Vietnam.

In the 2019 World Economic Forum Global Competitiveness Index Indonesia ranked below Malaysia, China and Thailand from the group of peers at 50th most competitive in the world. Its rank has only improved from 54 over the decade since the 2009–10 measurement. But that is the third best rank improvement in the peer group after the Philippines (up 23) and Vietnam (up 8).

In the World Bank's Ease of Doing Business ranking (which has recently been paused for a methodology review) Indonesia ranked 73 in 2020 behind Malaysia, Thailand, China, Turkey, India and Vietnam. But over 10 years it has risen 49 places which is the same as the Philippines but a lesser rise than those recorded by India (up 70 places) and China (up 58).



CHAPTER 3:

A great deal for business

Free trade agreements deliver new market access and set out the rules governing the treatment of services, investment and trade. But they do not write the rules for doing business in a market.

A great deal for business

Key points

- **Under IA-CEPA more than 99% of Australian goods exports to Indonesia will enter duty free or under significantly improved preferential arrangements.**
- **The agreement contains a cooperative bilateral mechanism for addressing behind-the-border barriers to trade that restrict the flow of goods and services.**
- **It has modern rules covering the treatment of service suppliers and investors and their investments while preserving the right of the government to regulate in the public interest.**

How to use the new trade deal

IA-CEPA presents opportunities for Australian exporters of goods and services across many sectors including food and agribusiness, skills and training, mining services, professional services and infrastructure. It will expand partnerships between business, communities and individuals in both countries.

The agreement came into force on July 5, 2020, however it is not Australia's first trade deal with Indonesia. Both countries signed the Agreement Establishing the AANZFTA, which came into effect for Australia in January 2010.

IA-CEPA builds on the benefits of AANZFTA, which continues to work in parallel with IA-CEPA. This means Australian exporters can choose the agreement that is best suited to them to trade. Australia and Indonesia are also two of the 15 countries that signed the Regional Comprehensive Economic Partnership Agreement (RCEP) on November 15, 2020, with both countries working towards the ratification of the RCEP in 2021.

While FTAs such as IA-CEPA and AANZFTA are important, they make up just one part of Australia's trade and investment relationship with Indonesia. The agreements deliver new market access and set out the rules governing the treatment of services, investment and trade. But they do not rewrite the rules for doing business in a market.

Businesses still need to spend time and resources building relationships in Indonesia, undertake due diligence on any proposed partners, as well as understand consumer trends for the product and services they are interested in supplying. This chapter provides a broad overview of IA-CEPA as an introduction to the more detailed sectoral chapters.

What it means for Australian business

“It alters the sense of how Australia is viewed in Indonesia. In a country where credibility is so important, the agreement gives a boost to all Australian companies – whether or not their products are directly impacted”, Richard Baker, Red Piranha executive director

IA-CEPA increases Australia’s access to Indonesia by providing improved and more certain access for the export of certain goods, and more certain access for service providers and investors in a number of sectors.

Goods liberalisation

- More than 99% of Australian goods exports by value to Indonesia will enter duty free or under significantly improved preferential arrangements (compared with 85% under AANZFTA).
- Under IA-CEPA, Indonesia has committed to issue import permits automatically and without seasonality for key products such as live cattle, frozen beef, sheep meat, feed grains, hot/cold rolled steel coil, certain citrus, carrots and potatoes.

Case study: BEEF

IA-CEPA is important for Australian exporters and Indonesian consumers of beef. For example, in the first 6 months of the agreement to the end of 2020 up to 281,215 head of Australian live male cattle could enter Indonesia duty free. This amount grows annually to 700,000 in year six of the agreement. Female live cattle exported from Australia also receive tariff-free access.

Tariffs on frozen beef with bone in, and frozen sheep meat were initially reduced to 2.5% from 5% and will be eliminated by 2023. Tariffs on all other frozen beef have been eliminated. In the first 5 months of operation, tariff rate quota (TRQ) certificates have been issued to more than 100,000 head of live male cattle, providing duty free access for this key Australian export and demonstrating IA-CEPA’s immediate benefit to exporters.

Services liberalisation

Australia’s strong capabilities to supply services, such as education and training, healthcare, mining, engineering and tourism, are widely recognised. IA-CEPA will provide a major boost, providing increased certainty of access across a range of services in these sectors.

Australian providers of technical and vocational education and training (TVET) can offer certain work training services through majority Australian-owned businesses in Indonesia. Australian providers can also offer the full range of Australian qualifications and non-award courses, with no restrictions on where these are located.

Increased access for cross-border legal and professional services will also play an important role in increasing the transfer of technical skills and knowledge. Australia can supply legal, architecture, engineering, and construction services as consultants on a cross-border basis.

In April 2021, the Australian Government launched the Services Exports Action Plan, the first international and joint strategy between government and industry for services exports beyond tourism and international education. The plan aims to boost services exports as a proportion of Australia’s total exports by supporting the competitiveness of Australian service industries, and commits the government and industry to 81 individual actions, which together will help the services sector find new export markets, grow their businesses, and employ more people. Further information can be found at <https://www.services-exports.gov.au/>.

Investment rules

Indonesia is seeking more foreign investment, especially in priority sectors such as energy and infrastructure, to meet its ambitious economic development plans. Australia is a natural partner for Indonesia, as a close neighbour with considerable expertise in these sectors.

IA-CEPA provides greater certainty and protection for Australian investors and investments in Indonesia. The next chapter examines the outlook for Australian investment in detail.

Skills package

The agreement includes a skills package aimed at supporting Indonesia's economic growth by assisting the country to build a highly skilled and industry-ready workforce.

Reciprocal Skills Exchange Program

This pilot project gives businesses from each country the opportunity to send people with tertiary level skill qualifications to undertake work-related training for up to 6 months in the other country.

The pilot project will apply to financial and insurance services; mining, engineering and related technical services; and information media and telecommunication services. The pilot program will start with up to 100 exchanges in each direction, increasing subsequently to 500 exchanges. Travel restrictions due to COVID-19 have delayed the commencement of this program.

Workplace Skills Training Program

A Memorandum of Understanding between Australia and Indonesia will focus on skills development through a pilot program on workplace-based training.

The pilot will allow up to 200 Indonesians per year who are sponsored by an approved organisation in Australia to undertake workplace-based training in Australia for up to 6 months in the following sectors: education, tourism, telecommunications, infrastructure development, health, energy, mining, financial services, and information and communications technology.

Work and Holiday visa arrangements

Australia and Indonesia have a separate arrangement that allows Australian and Indonesian travellers aged between 18 and 30 to work and holiday in the other country for up to 12 months.

Under IA-CEPA, the annual limit of Work and Holiday visas for Indonesians will increase from the current 1,000 places to 4,100 places and will be increased each year to 5,000 visas by 2025.

Focus on NON-TARIFF BARRIERS

IA-CEPA contains a cooperative bilateral mechanism for addressing behind-the-border barriers to trade, supporting the Australian Government's Action Plan to address non-tariff barriers.

Non-tariff barriers can be any kind of red tape or trade rules that unjustifiably restrict the flow of goods and services. The Australian Government is taking action to remove these kinds of barriers for Australian businesses in overseas markets. Businesses can report non-tariff barriers that are restricting their exports by registering them online at www.tradebarriers.gov.au, or by contacting the Department of Foreign Affairs and Trade at ntb@dfat.gov.au, phone: 02 6178 4300. They can also raise concerns with their industry association, as well as directly with relevant government departments and agencies.

Outcomes for Indonesia

Goods

Building on the AANZFTA, Australia has eliminated all remaining tariffs on Indonesian imports into Australia.

In response to a specific Indonesian request, Australia has provided the most liberal origin requirements for Indonesian electric motor vehicles of any Australian trade agreement.

Services and investment

Indonesian investment in Australia will be subject to Australia's foreign investment policy, including screening by the Foreign Investment Review Board.



Image credit: Shutterstock

Economic cooperation

IA-CEPA includes an economic cooperation program (ECP) referred to as IA-CEPA ECP Katalis. Classified as Official Development Assistance, this \$40 million program is expected to be rolled out until 2025.

It will initially focus on the agrifood, advanced manufacturing and skills sectors. For more information, visit www.iacepa-katalis.org.

RCEP: How it fits in

The Regional Comprehensive Economic Partnership Agreement (RCEP) is a regional free trade agreement (FTA) that brings together nine of Australia's top 15 trading partners including Indonesia. It was signed on November 15, 2020. Each signatory must go through its own domestic treaty procedures to ratify RCEP before it enters into force and can be used by businesses.

This agreement will provide a single set of rules and procedures for accessing preferential tariffs across the region. RCEP's rules of origin are modern and liberal, reflecting contemporary production processes and trade logistics arrangements. Movement of goods in the region through ASEAN to China, Japan and Korea (and vice versa to Australia) will be easier, as will using regional distribution hubs.

Certificate of Origin arrangements familiar to Australian business will be maintained and options for use of self-declaration expanded, with scope for proof of origin to be accepted in electronic format.

RCEP will also introduce greater flexibility by providing for post-importation claims for preferential tariff treatment in accordance with parties' laws and regulations.

Indonesia has agreed to new services and investment commitments (AANZFTA and IA-CEPA-plus) in several subsectors including acupuncture, veterinary services, telephone answering services and telecommunications; and higher foreign equity caps for specialist nursing and management consulting, as well as for the cross-border supply of maintenance and repair services. Indonesia has also agreed to apply the 'ratchet-mechanism' in construction and related engineering services, which will lock in future unilateral liberalisation and will allow significant reduction of barriers to services and investment trade over time. It has agreed to improvements over the General Agreement on Trade in Services (GATS), AANZFTA and IA-CEPA on services supplied by natural persons, including on some computer and related services (such as maintenance of office equipment).



Further information

Resources and tools

- IA-CEPA: Full details can be found on the Department of Foreign Affairs and Trade website at <https://www.dfat.gov.au/about-us/business-opportunities/Pages/indonesia-australia-comprehensive-economic-partnership-agreement-ia-cepa>
- **Trade deals:** The Department of Foreign Affairs and Trade [FTA Portal](#) makes it easier to find information about all of Australia's trade deals, including how to use them and their benefits. It can help businesses know whether IA-CEPA or AANZFTA provides the best benefits for their goods or services. It also provides a step-by-step guide to determining if your product could be eligible for a lower tariff. The portal is at <https://ftaportal.dfat.gov.au/>
- **Austrade** also runs business seminars, which provide opportunities to hear directly from experts and experienced exporters on how Australia's trade deals can benefit Australian businesses.
- **Advice:** In addition, the [Free Trade Advantage](#) e-learning and resources platform provides a practical guide to help businesses access the benefits of Australia's various trading arrangements.
- **Export Finance Australia (EFA)** provides solutions through loans, bonds and guarantees to help Australian businesses expand overseas. For companies looking to export or invest in Indonesia, EFA could help them access finance. The agency could also support the purchase of Australian goods and services by overseas buyers and businesses working in an export supply chain. EFA has supported Australian exports to Indonesia, including meat and agriculture products, mineralogical scanning technology and marketing services. It can provide working capital support or help businesses purchase new equipment to expand operations. It is also helping previously profitable businesses impacted by COVID-19 to re-establish export markets. EFA also finances infrastructure projects in the Indo-Pacific that benefit Australia and the region. Indonesia is one of five target markets under its Indo-Pacific infrastructure mandate. EFA looks to complement commercial finance and does not provide concessional loans, equity or grants. Visit exportfinance.gov.au or contact them at info@exportfinance.gov.au or on 1800 093 724.





CHAPTER 4:

The investment opportunity

Attracting a bigger share of the foreign investment flowing into Southeast Asia is a priority of President Widodo. Raising the level of this investment is crucial to plugging the gaps in domestic financial markets.

The investment opportunity

Key points

- **Indonesia needs investment both in the short term for COVID-19 recovery and the long term as it seeks to push GDP growth above its pre-pandemic average.**
- **Domestic financing is underdeveloped and public investment will be constrained by the re-imposition of the 3% deficit cap in 2023, making foreign investment crucial.**
- **IA-CEPA has secured key access and protections for Australian investors helping to create a more certain investment environment.**
- **The Job Creation Law reforms aim to improve business and investment regulation.**

Why Indonesia needs investment

Indonesia has faced a shortfall in private finance for investment, constraining the supply of everything from infrastructure to new entrepreneurship. While the government has some capacity to provide public finance as the issuer of a sovereign currency, private finance – both foreign and domestic – helps sharpen incentives and, particularly in the case of foreign investment, brings new ideas, technology and business models into the local economy. Investment not only creates jobs and income in the short and medium terms, it is vital for productivity growth.

Attracting Indonesia's "fair share" of FDI flowing into Southeast Asia is a [priority of President Widodo](#) because despite being about 40% of regional GDP Indonesia only receives about 15% of regional FDI.¹ According to the United Nations Commission on Trade and Development, Southeast Asia's share of global FDI doubled between 2015 and 2018 to 11.5%, with actual investment growing 30% over this period to US\$155 billion. Indonesia's share grew 32%, suggesting it kept pace with its neighbours overall despite reports it is missing out on investment shifting out of China. In 2019 FDI to Indonesia grew 14% to US\$23 billion, which was

slower than the growth rate for Singapore (up 15% to US\$92 billion) but faster than Vietnam (up 10.2% to US\$16.6 billion).

Shallow financial services markets in Indonesia are constraining growth in key sectors, especially the services. Indonesian businesses have access to fewer financing options than their competitors in other Asian economies. Many households do not possess bank accounts and savings remain low. Raising the level of foreign investment is therefore crucial to plug the gaps in domestic investment and financial markets.

Infrastructure is a key area where Indonesia is seeking foreign investment. The gap between the infrastructure needed and the infrastructure funding it gets is 2.2% of GDP. Increasing flows of infrastructure financing from foreign investors is key to managing congestion as the country's population grows and improving the efficiency of its transport facilities to attract new manufacturing investment. Infrastructure will also be crucial to improving living standards and making the most of increasing urbanisation.

Challenges to foreign capital

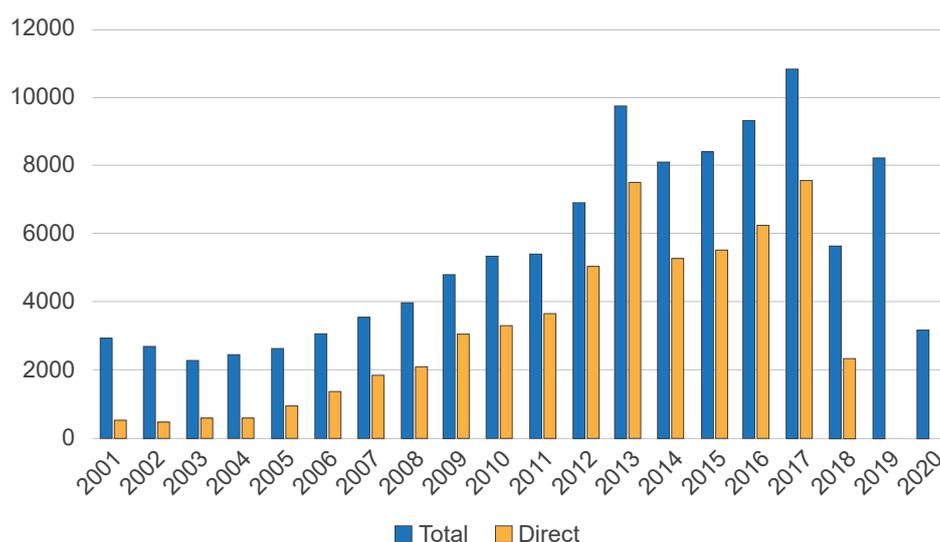
Foreign investment has been viewed with caution among parts of the Indonesian public and government, particularly in the aftermath of the AFC. This has been reflected in restrictions on investment and significant reliance on SOEs in some industries for development. Complex regulations at the national and subnational level can result in higher costs and complexity for foreign investors. A critical long-term reform is to codify regulations and instill a culture of decision-making via rules rather than bureaucratic discretion.

Some economists say Indonesia's economy could be growing at close to 7% if it improved the effectiveness of investment. The BKPM has [cited](#) the need to improve investment effectiveness as a

key reason for the Job Creation Law.² The amount of capital required to produce the same amount of income is generally calculated by international financial institutions to be higher in Indonesia than many comparable neighbouring countries. Some economists say that if Indonesia improved the ratio to the regional average, growth would be 6–7% instead of 5%.

There are risks Indonesia will be influenced by the global movement towards more nationalistic economic policies especially as the pandemic has sparked debate about economic self-reliance. However, President Widodo's government remains committed to reform to attract more foreign investment and has made the successful implementation of IA-CEPA a priority.

Figure 4.1: Australia investment stock in Indonesia (\$m)



Source: ABS (2021). Note: Direct Investment data was not available for publication for 2019 and 2020.

Australian investment

Australian investment in Indonesia has grown in the past two decades (Figure 4.1), primarily in FDI but with growth in portfolio investment as well. However, despite the wealth of opportunity and its proximity, Australian investment appears to be under-done.

For example, Indonesian cumulative investment realisation figures show South Korea has more than four times the Australian investment of US\$270

million, even though it is a similar sized economy. However, there are significant data differences on this issue. According to a special foreign investment survey released in 2020 by the [Australian Bureau of Statistics](#) (ABS), Australian businesses have a controlling interest (of more than 50% ownership) in 77 foreign affiliates (or subsidiaries) operating in Indonesia, representing almost \$11.5 billion in Australian equity.

One partial explanation which is used to account for these sorts of differences in the various official amounts of investment is that some notionally Australian investment in Indonesia comes via third countries such as Singapore.

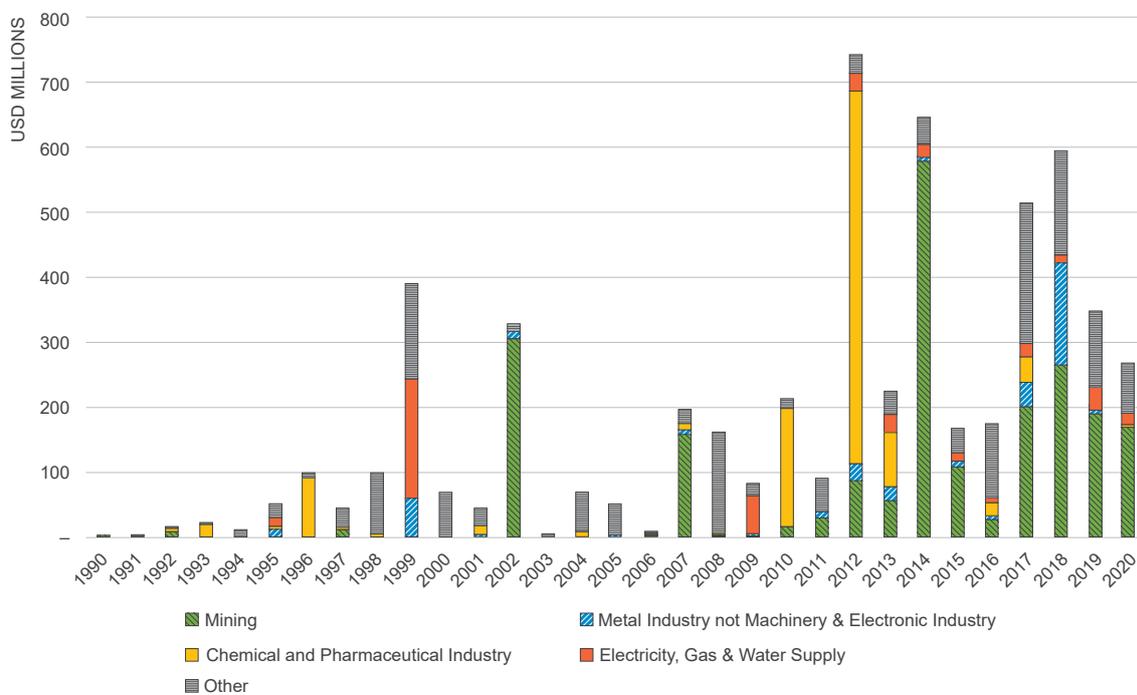
Australian investment has traditionally concentrated on the mining, chemical and pharmaceutical, and electricity, gas and water supply industries (Figure 4.2). Australia’s business interests in Indonesia have historically been focused on servicing the domestic economy (agriculture and food, resource commodities, manufacturing of goods used in Indonesia, education, banking and insurance) and servicing the internationally competitive resources industry.

In recent years, Australian businesses have become more diverse, a trend that is in many cases linked to the modernisation of the Indonesian business and consumer markets. According to the 2020 ABS survey the 77 Australian affiliates in Indonesia employ 31,000 people and have more than \$7 billion in sales.

Investment continues to emerge in the skills and vocational education and training sector, as well as higher education, with Monash University committing to opening a postgraduate campus in Jakarta. The Commonwealth Bank has delivered an innovative digital-first consumer banking product, and Aspen Medical has entered the market with a venture which supports hospitals to modernise their operating facilities.

Indonesia nonetheless remains a challenging market overall from a policy and regulatory perspective. However, many Australian businesses assess the market as having long-term upsides that justify the risks. This has taken place against the backdrop of rapid changes in the Indonesian economy that are resulting in a more diverse set of economic and commercial interests complementing Australia’s traditional areas of strength across agriculture, resources, manufacturing and education.

Figure 4.2: Australian investment flows to Indonesia by industry (BKPM data)



Source: BKPM (2020)

IA-CEPA and Australian investors

In IA-CEPA, the investment chapter contains a set of high-quality, modern rules governing the treatment of investors and their investments. The chapter includes an Investor-State Dispute Settlement mechanism which provides investors from both countries with access to an independent arbitral tribunal to resolve disputes for breaches of certain investment rules.

These rules protect against discriminatory treatment, require payment of fair compensation where an investment is expropriated, ensure investment-related capital transfers can occur freely and without delay, and guarantee that investors and their investments will be accorded a minimum standard of treatment in accordance with the accepted international law standard.

Figure 4.3: Commitments for Australian ownership negotiated under IA-CEPA

Note: Due to additional domestic reforms such as the Omnibus Law, the allowed level of Australian ownership may be even higher than the allowances listed below negotiated under IA-CEPA. Indonesian foreign investment regulations may change at any time, but IA-CEPA ensures that Australian investors will always have access to, at minimum, the following ownership levels.

Sector	Opportunities for Australian business
Work training	Up to 67% for supplying certain technical and vocational training
University education	Automatically locks in future liberalisation for Australian universities setting up in Indonesia. Indonesia intends to open the sector further in the future.
Mining and related services	Up to 67% of contract mining services and mine site preparation services
Hospitals and in-hospital pathology, paramedic and specialist medical and dental clinics	Up to 67% of large hospitals and, within large hospitals, up to 67% of pathology, paramedic and medical and dental specialist clinic services. No geographic limitations.
Aged care services	Up to 67% of aged care facilities
Telecommunications	Up to 67% of telecommunications
Tourism	Up to 100% Australian ownership for 3, 4, and 5 star hotels and resorts, no geographical limits; up to 67% Australian ownership of most other accommodation, restaurants, cafes and bars, as well as tour operator services and tourism consultancy services; up to 51% of marinas.
Professional services	Up to 67% of architectural, urban planning, most engineering and surveying services
Construction services	Up to 67% of most construction-related work
Energy	Up to: 95% of power plants (more than 10 megawatts) 75% of oil and gas platform construction 67% electrical power construction, installation, operation, maintenance 55% for electrical power installation constructions 51% of geothermal power plants (10 megawatts or less); geothermal surveying, drilling and operations; and offshore oil and gas drilling
Wastewater management	Up to 67% of wastewater management
Transport	Up to 67% for highways, bridges, tunnel concessions and parking services and 51% for operation of railways

Challenges for Australian businesses

A 2020 survey by the Australia-ASEAN Chamber of Commerce found that the most common top three challenges of operating in Indonesia for Australian business were barriers to ownership and corruption (each nominated by 50% of respondents) and political instability (38%).³ Responses on individual challenges showed that government bureaucracy was perceived by almost 70% of respondents as having overtaken traffic congestion in the past year as the highest impact challenges. They were followed by unfair business practices, corruption and weak law enforcement which were noted as challenges by more than 40% of respondents.

The [Australia-Indonesia Centre \(AIC\) and EY Sweeney's 2016 research report](#) on the perceptions of Australians and Indonesians noted, "from a business perspective, there is little awareness of Australian companies that are doing well in Indonesia. By the same token, there is little or no awareness of Indonesian organisations, companies or brands. Without these cultural and business reference points, it's hard for attitudes to shift and trust to be built." The AIC-EY Sweeney research found only 22% of Australians agreed with the statement 'Australian businesspeople can be confident when conducting business with

Indonesians' (38% were neutral, 26% disagreed and 14% were unsure). The top three factors perceived by Australians to make the biggest difference in engagement going forward were growing trade (50%), trade agreements (46%) and travel and tourism (38%). The research found the Australian public's knowledge about Indonesia (particularly its culture and politics) was very limited, with the authors noting "there are some significant misconceptions in Australia about Indonesia and a stark lack of basic knowledge about the country."⁴

Other perceived obstacles often cited as disincentives to investment include concerns about financial instability and market dysfunction due to the AFC; exaggerated perceptions of the actual extent of corruption and poor governance; assumptions regarding Indonesian poverty; poor understanding about the size, wealth, and potential of the Indonesian middle class; and ignorance about Indonesian culture and society. This is evidenced in Asialink Business Winning in Asia report in 2020, which highlights that over 90% of senior leaders (boards and senior executive teams) in our ASX200 companies do not have the experience, knowledge and capabilities to do business with the region.

Indonesia's incentives and support

The Indonesian Investment Promotion Centre (IIPC) is responsible for promoting investment in Indonesia to potential foreign investors as the official representative of the BKPM overseas. The IIPC provides information to potential foreign investors, facilitates investment missions, and hosts an annual business summit. IIPC also conducts research on the investment climate in all industries, usually tailored to the needs of investors.

Several measures have been taken by Indonesia to attract investment. Business licensing applications between ministries are being expedited and integrated into an Electronic Single Submission System. In the last 4 years the government released 16 economic reform packages.

Incentives available to foreign investors include:

- exemptions on import duty
- tax allowances in certain sectors and regions
- tax holidays for certain investments
- super deduction tax, including for labour intensive industries and vocational education.

For further information on Indonesian Government incentives and support for Australian investors please visit the IIPC at:

www9.bkpm.go.id/en/home-iipc/sydney/11

Address: 1 Farrer Place, Suite 6, Level 30

Governor Macquarie Tower, Sydney NSW 2000

Ph: (02) 9252 0091

Opportunities in the Omnibus Law

The Job Creation Law which amends 76 pieces of legislation in one reform is a new approach to business regulation. It simplifies licensing processes and land acquisition processes, streamlines the corporate tax system, reforms labour laws and opens the door for liberalised foreign investment regulations, particularly in terms of foreign ownership.

The new licensing and investment framework includes the establishment of a “Business Licensing” category, simplifying regulatory procedures and providing clarity on how proposed commercial activities will be assessed. Obtaining a business licence will now require streamlined environmental approval, building construction and utilisation approval, and conformity to a spatial plan.

Figure 4.4: Business licences under the Omnibus Law

	REQUIRED BUSINESS LICENSE	CRITERIA OF RISK
Low risk business activity	Only a Business Identification Number (<i>Nomor Induk Berusaha</i> or “NIB”).	Risk is determined by assessing the health, safety environmental, and natural resource utilization effect of the business activity, as well as the sector, criteria, location, limitation of resource, volatility and likelihood of risk of the concerned business activity.
Medium risk business activity	NIB and a standard certification (<i>sertifikat standar</i>).	Implementing regulations will elaborate on determination of risk levels and risk-based business activity licensing.
High risk business activity	NIB and business license will be required. <i>Note: business license is defined as required licensing for the specific commercial activity, as issued by the relevant government institution.</i>	

Source: Oentoeng Suria & Partners, ‘Indonesia’s Omnibus Law: A Breakthrough – Key Highlights’

procedure and criteria framework. Business entities can propose SEZ treatment on the condition that they own at least 50% of the land. Land acquisition for development for investment and public interest is also facilitated through the establishment of a land bank. Finally, the Law allows the central government to harmonise and synchronise regulations to promote standardisation in public administration. Local governments that do not adjust regulations accordingly are subject to administrative sanctions.⁵

Indonesia’s current foreign investment rules and restrictions are contained in Presidential Regulation Number 10 of 2021. However, these restrictions are still significantly less onerous than previous ones and provide scope for wholly owned Australian investment in key sectors. The regulation indicates the government is moving away from the old “negative investment list”, which specified prohibited foreign investment, to a positive or “priority list”, which offers incentives including tax allowances in key industries. The regulation is split into three parts: a list of sectors that will attract tax breaks and other concessions (the priority list); a list of sectors that are only open to micro, small and medium enterprises (MSMEs) or cooperatives, or require partnership with MSMEs or cooperatives; and a list of sectors that are closed to foreign investment or subject to foreign equity restrictions.

Overall, the regulation is a significant improvement for Australian investors, including allowing wholly owned Australian investment in sectors such as hospitals, energy, telecommunications, consultancy services and environmental services.

The Law also commits the government to easing foreign investment restrictions which will include a list of prioritised business sectors, fiscal and non-fiscal incentives, and reserved business sectors for small and medium enterprises and those that are open for investment under certain conditions. The Law also makes labour regulations more flexible, and brings them more in line with those of other countries in the region. Indonesia’s corporate tax framework is also unified under the Law, minimising overlapping regulations and providing corporate tax incentives. Special Economic Zones (SEZ) are also established for the health and education sectors, with SEZ administrators empowered to issue permits according to the norms, standards,



CHAPTER 5:

The new digital economy

The fastest growing digital economy in Southeast Asia faces several challenges reaching its full potential from low levels of digital payment use to underdeveloped logistics networks outside of major cities.

The new digital economy

Key points

- **The pandemic has accelerated digitisation in the world's second biggest cash-based economy with more than one-third of digital services users in 2020 being new users.**
- **The government has encouraged use of online private health and education services during COVID-19 in a boost for digital economy service providers.**
- **New data protection laws are under development but IA-CEPA has provided several data protection guarantees for Australian businesses.**

An ecommerce market set to triple in value

Indonesia is the largest and fastest growing digital economy in Southeast Asia. It had 175 million internet users in January 2020⁶ and an estimated 183 million Indonesians are smartphone users. The development of the digital economy is one of the Indonesian Government's highest priorities. The digital economy was valued at \$59 billion in 2020 and is expected to nearly triple in market value to \$167 billion by 2025.

Ecommerce is the largest sector of the digital economy in 2020, valued at \$43 billion. Indonesia is the world's second largest cash-based economy after India, with an estimated 96% of people not owning a credit card. The creation of new digital wallet payment options by companies such as Ovo, GoPay and Dana is enabling customers without bank accounts to make online purchases. The number of digital transactions has grown quickly from 535 million transactions in 2015 to 5.3 trillion transactions in 2019.⁷

COVID-19 has accelerated digitisation with a significant number of Indonesians turning to the internet to access goods and services.

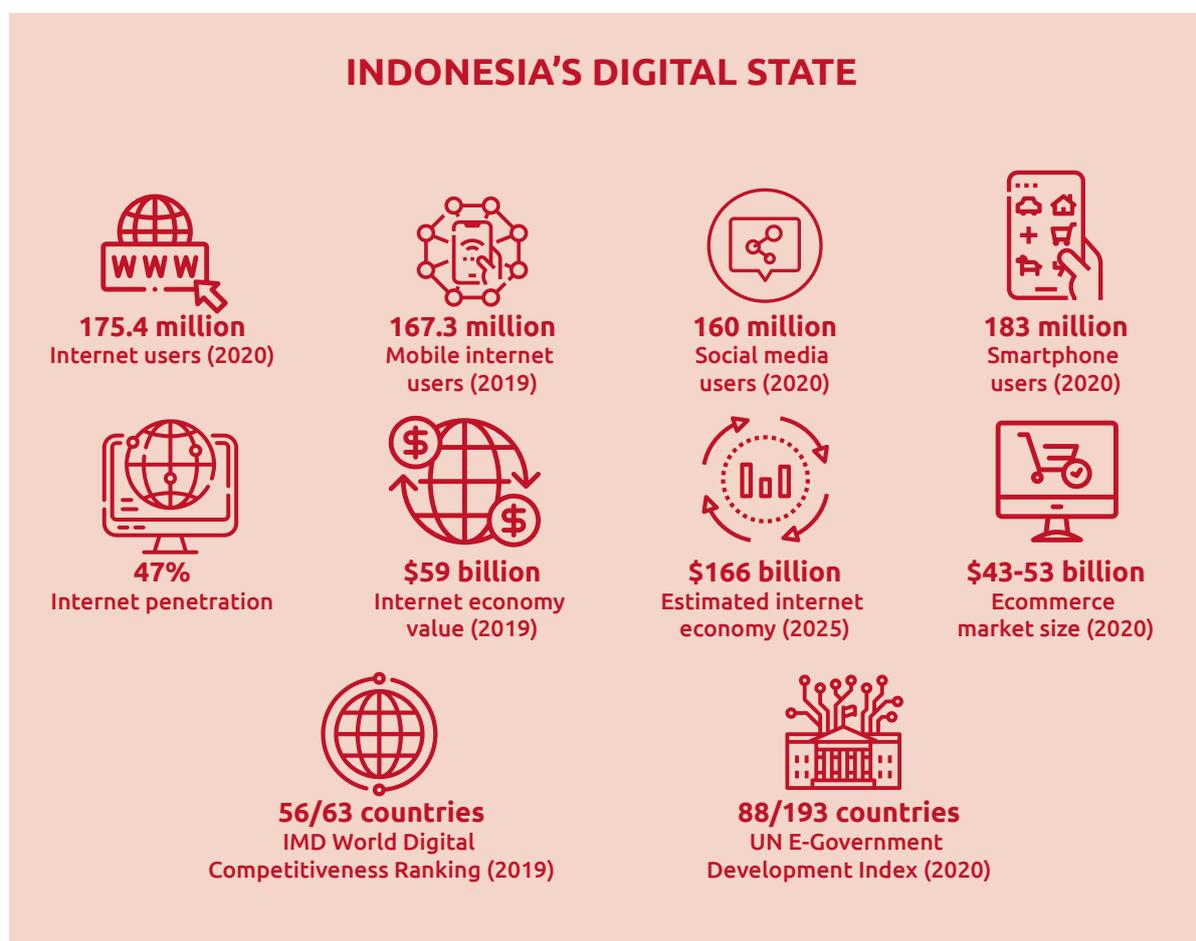
This is having a considerable impact on businesses and the economy. For example, 37% of all Indonesian digital service consumers were new in 2020, with 93% of consumers intending to continue using these online services after the pandemic. Healthtech and edtech businesses have seen a boost in adoption of their services during the pandemic and ecommerce has grown by 11% since 2019.

Digitisation is a priority across sectors, with the creation of new infrastructure, technologies and talent development. Examples of start-ups include Nodeflux, focusing on computer vision, AI, Kata.ai, a conversational platform, and KoinWork, a peer-to-peer (P2P) lending platform.

Indonesia's digital economy will have to overcome several challenges to reach its full potential. These challenges include the low, albeit growing, levels of digital payment use, limited internet infrastructure, underdeveloped logistics networks outside of major cities and low levels of participation in the digital economy among micro, small and medium enterprises (MSMEs).

Disparity of income, internet infrastructure and transport networks between urban and rural areas is another key bottleneck to the development of the digital economy. In 2019, the per capita spending of urban online users was five times greater than internet users in rural areas.

Encouraging more MSMEs to participate in the digital economy, and to do so securely, is also key to growing Indonesia's online commerce. Of the 64 million MSMEs only 8 million (13%) are integrated with the digital economy.



Impact of COVID-19

The government's COVID-19 countermeasures – including social distancing, work from home policies, social restrictions and closure of schools, offices and other institutions – have driven Indonesians online.⁸ Ecommerce sites have seen an uptick in online sales as bricks and mortar retail sales declined. The ecommerce market was expected to reach \$54 billion in 2020 (gross merchandise value). This is US\$17 billion more than the market value in 2019 and partly due to the increase in ecommerce users as a result of the pandemic. Analysts estimate that there were an additional 10 million online shoppers in Indonesia in 2020, compared to before the pandemic.

Companies have also accelerated plans for internal digitisation for staff and provided new online channels for customers. The closure of healthcare facilities and schools as a result of the pandemic has created opportunities for telehealth and edtech companies. For example, the Indonesian Government is directing the public to use telehealth firms such as Alodokter, Halodoc and GrabHealth to lessen the burden on Indonesia's healthcare infrastructure during the pandemic. Similarly, the Ministry of Education and Culture partnered with seven Indonesian edtech companies to grant free access to online learning during COVID-19. The skills development program Kartu Prakerja has also moved online.



The leading ecommerce players

Indonesia now has five digital start-ups valued at more than US\$1 billion which is the eighth largest concentration of these “unicorns” in the world.

- **GoTo** is the result of a merger between the ride hailing company Gojek and the largest Indonesian ecommerce platform Tokopedia in May 2021 to create a new regional digital giant.⁹
- **Bukalapak** is an ecommerce platform, with more than 6 million merchants selling products including electronics, food, shoes, apparel, accessories and cosmetics.¹⁰
- **Traveloka** is an online travel company. Its mobile app has been downloaded more than 30 million times.¹¹
- **Ovo** is a digital payment company with a digital wallet product used by more than 110 million Indonesians across 300 cities.¹²

The government is implementing measures to support start-ups such as the annual Nexicon (Next Indonesian Unicorns) summit, which is hosted by Indonesia’s Ministry of Communication and Information, to link start-ups across all sectors with investors.

In 2019, the ecommerce market was valued at \$30 billion. The range of ecommerce sites are generally business-to-consumer (B2C) online marketplaces, consumer-to-consumer (C2C) marketplaces or direct sales sites. The key ecommerce sites (below) all list products within the general retail category. In addition to ecommerce sites, there is a large market for social media sales where merchants and individuals use Facebook and Instagram to sell products to consumers, either through the platforms or by directing users to their product websites.

Government regulation in relation to the digital economy is evolving, including in relation to data protection. Government Regulation 80 of 2019 on trading through electronic systems provides some clarity for ecommerce providers and includes a requirement for certain foreign businesses to establish a representative office in Indonesia if they reach a particular threshold of sales.

Figure 5.1: Leading ecommerce platforms in Indonesia

Platform	Business model	Monthly visitors (million)	Markets
Shopee	C2C	107	Indonesia plus Singapore, Malaysia, Thailand, Taiwan, Vietnam, Philippines and Brazil
Tokopedia	C2C, B2C	86.7	Indonesia only
Bukalapak	C2C, B2C	27.9	Indonesia only
Lazada	B2C, Direct sales	23	Indonesia, plus Vietnam, Malaysia, Thailand, and Singapore
blibli	B2C, Direct sales	16	Indonesia only

IA-CEPA and ecommerce

The new trade deal contains the following commitments from Indonesia and Australia relating to ecommerce.¹³

- **Flow of data:** IA-CEPA guarantees the free flow of data across borders for service suppliers and investors as part of their business activities. There are, however, some restrictions on the transfer of customer personal data and payment data.
- **Application of data localisation laws:** Both countries agree that they will not introduce more restrictive data localisation laws and regulations and any Australian traders will immediately benefit from the liberalisation of Indonesia’s existing laws on local data storage.
- **Source code protections:** Australian and Indonesian software suppliers will not be required to hand over source code as a condition for the import, sale, distribution or use of software.

- **Facilitation of electronic commerce:** Assistance to small and medium enterprises (SMEs) to overcome barriers to ecommerce sites and to share information with SMEs on ecommerce regulations.
- **Electronic trade facilitation:** IA-CEPA includes commitments which facilitate cross-border trade, for example the use of electronic signatures and digital trade administration documents.
- **Privacy and consumer right protections:** IA-CEPA includes privacy and consumer rights protections and actions to address spam messages.
- **Cybersecurity cooperation:** Including through the separate 2018 Memorandum of Understanding on cyber cooperation.¹⁴
- **Transparency:** Both countries agree to publish information on the rights of ecommerce users.

Digital transformation plans

Indonesia aims to become a leading digital economy in Southeast Asia.¹⁵ The government announced five priorities in 2020 to accelerate the development of the digital ecosystem, including:

1. **High-speed internet infrastructure:** Develop internet infrastructure in 12,500 villages/sub districts and 150,000 public service points.¹⁶ Key programs include the provision of base transceiver stations at 5,053 locations and increasing satellite capacity at 12,377 public service locations.
2. **National Data Centre (PDN):** This planned centre would consolidate data and accelerate the digitisation of public services.
3. **Digital capable workforce:** Indonesia is investing heavily in digital education with initiatives such as the Digital Talent Scholarship Program, which aims to increase the digital literacy and skills of the workforce through training 60,000 participants a year in ICT skills.¹⁷
4. **Supporting MSME participation:** Financial and non-financial support to MSMEs to embrace the digital economy. The MSME Digital Heroes program trains small businesses to develop digital start-ups and sell their goods online.¹⁸
5. **Personal Data Protection Bill:** The legislation will strengthen Indonesia's data protection regime by focusing on key areas including data collection, data security and individual rights as they relate to data.

system operators. Indonesia embarked on the development of a Personal Data Protection Bill in 2020 which once passed will replace the existing laws and regulations and regulate data processing and other data protections.¹⁹ Key aspects of the law are expected to include that the data controller will need explicit consent from the data owner for personal data processing; the data controller is to notify a data owner and the Minister of a data breach within 3 days, and the data controller must notice where there is a breach which impacts public interests.

Government Regulation 71 of 2019 relaxes previous data localisation laws contained in Regulation 82 of 2012.²⁰ Under Government Regulation 71 of 2019, only "public electronic systems operators" must place their electronic system and data in Indonesia. Public electronic system operators include central and regional executive, legislative and judicial bodies or statutory bodies and entities appointed by these bodies to operate electronic systems. Public bodies operating in the banking and financial sectors are exempt from the mandate. However, both private and public electronic system operators regardless of the location of their electronic systems must give government authorities access to their electronic systems and data for law enforcement and monitoring purposes. Under Minister of Communication and Information Technology Regulation 5 of 2020, private electronic system operators are only obliged to provide access for law enforcement purposes under emergency situations (e.g. terrorism). However, these regulations are likely to be subject to change when the Personal Data Protection Law is finally passed.

Data protection and localisation

The country's data protection framework consists of the Electronic Information and Transactions Law (Law 11 of 2008, amended by Law 19 of 2016) and three regulations – Regulation 20 of 2016 on protection of personal data in electronic systems, Regulation 71 of 2019 on implementation of electronic systems and transactions and Regulation 5 of 2020 on private scope electronic





PART 2

Sectors





CHAPTER 6:

A nation of regional diversity

Indonesia should be seen as a country made up of different subnational regions, each with their own development challenges and opportunities.

A nation of regional diversity

Key points

- **Local government autonomy matters to business planning.**
- **The youth population tends to be clustered in the cities.**
- **Special Economic Zones provide important business incentives.**

Indonesia's sprawling archipelagic geography has historically fostered the development of strong subnational identities and regions. Since the end of the highly centralised Suharto government in 1998, there has been significant devolution of authority to the local level. Combined with the huge regional variations across the nation in terms of levels of demographics, economic development profile and resource bases, Indonesia is best seen as a single country made up of different subnational regions, each with their own development challenges and opportunities.

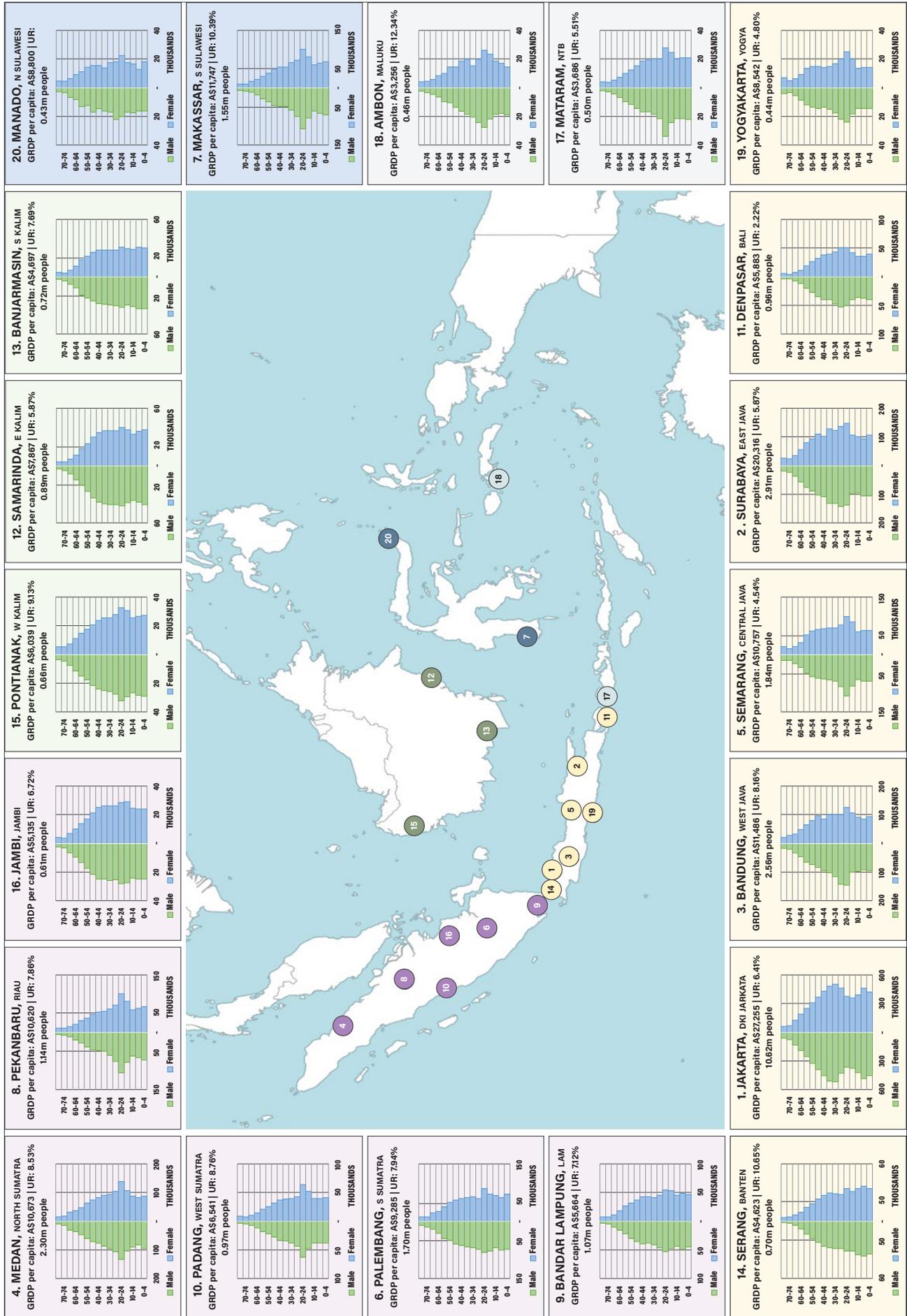
Early data from the 2020 national census indicates that Java, the most populous island in the world, has around 56% of the Indonesian population with more than 150 million people, and contributes 59% of the country's GDP. It also contains the three largest cities: the megacity and capital, Jakarta (with 10.8 million people), the East Java province capital, Surabaya (3.1 million) and the West Java capital, Bandung (2.5 million). The majority of the population are Muslims, and the dominant ethnic group in the eastern two-thirds of the island is Javanese.

In contrast, West New Guinea (or the provinces of Papua and West Papua) has a population of 5.4 million, and a GDP per capita around a quarter of that of Java. The dominant religion is Christianity, and the most common ethnic groups are Melanesian Papuans.

These differences are reflected in the economies of these regions. While Java is relatively industrialised and uses extensive cultivation to enhance agricultural productivity, West New Guinea is comparatively impoverished, with poor infrastructure, lower rates of urbanisation, and more dependency on subsistence agriculture with a few major natural resource developments. Though the central government sets the macroeconomic policy framework, it is the regions that control many of the factors that impact on the day-to-day life of a foreign or indeed local business.

To illustrate the contrasts across the country, the charts in Figure 6.1 on the next page set out the locations and demographics of the 20 largest cities.

Figure 6.1: Demography of 20 largest Indonesian cities by population



Several important points are illustrated by the charts. The first is Indonesia's "youth bulge" in the majority of these cities, where the age group of 20–24 years is generally the largest. This has important consequences for the workforce and consumer markets in these locations.

The second is the variation in income across each of the cities. Jakarta and Surabaya, at around \$27,000 and \$20,000 per capita, are comparatively developed, industrialised and wealthy cities. This makes these two cities the natural destination for selling high-quality goods. Cities such as Bandung and Semarang may make ideal destinations from

which to source labour, given their relatively high populations and relatively skilled workers that the medium income per capita implies.

Finally, the number and location of cities indicates that areas such as West and Central Java have both the largest markets, and the largest workforce. These are natural "first footprint" areas for businesses wishing to invest in Indonesia.

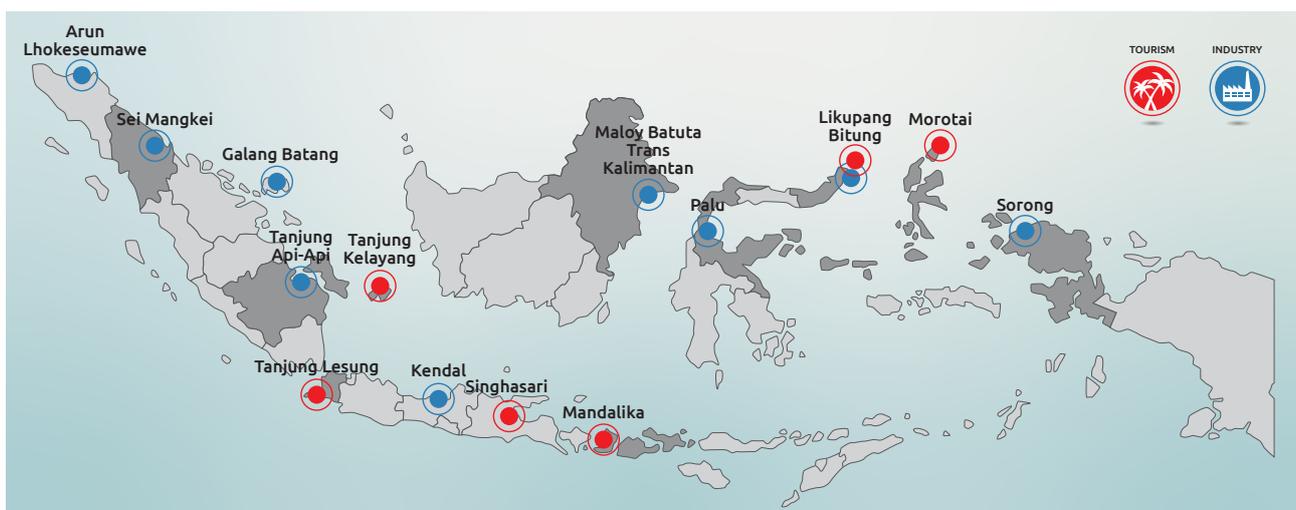
Together, these differences mean that specific or tailored engagement strategies at the sub-national level will be indispensable to the success of Australian businesses in Indonesia.

Special Economic Zones

The Indonesian Government has established 15 Special Economic Zones (SEZ, known as KEK in Indonesian), which designate areas within certain boundaries with particular economic advantages (particularly access to global markets through sea and air), in order to accelerate economic development. These zones complement IA-CEPA and should be considered as another locational factor by businesses interested in engaging with Indonesia. These areas are designed to maximise industrial activities, trade, and other high-value economic activities through certain facilities and investor incentives. Some examples of benefits for businesses include:

- income tax holidays of up to 100% for 10 to 25 years for investment more than RP 1 trillion (\$90 million)
- customs exemptions on all goods entering the zone and most goods exiting it
- numerous labour-related incentives such as streamlined visa processes for workers and their families
- building rights and land ownership rights.

Figure 6.2: Map of Indonesian Special Economic Zones



Source: BKPM (2020), 'Why Invest – Economic Zones', accessed at <https://www2.investindonesia.go.id/en/why-invest/economic-zone>

Sectors

The Blueprint identifies four broad areas in Indonesia where Australia has a comparative advantage. These in turn are divided into established sectors (health and aged care, education, skills and training, agriculture and food, and resources and energy services). Rather than attempting to pick winners, identification of these sectors merely indicates the areas which hold promise for Australian trade and investment, where there are large gaps between what Indonesia needs and what it can provide with domestic resources.

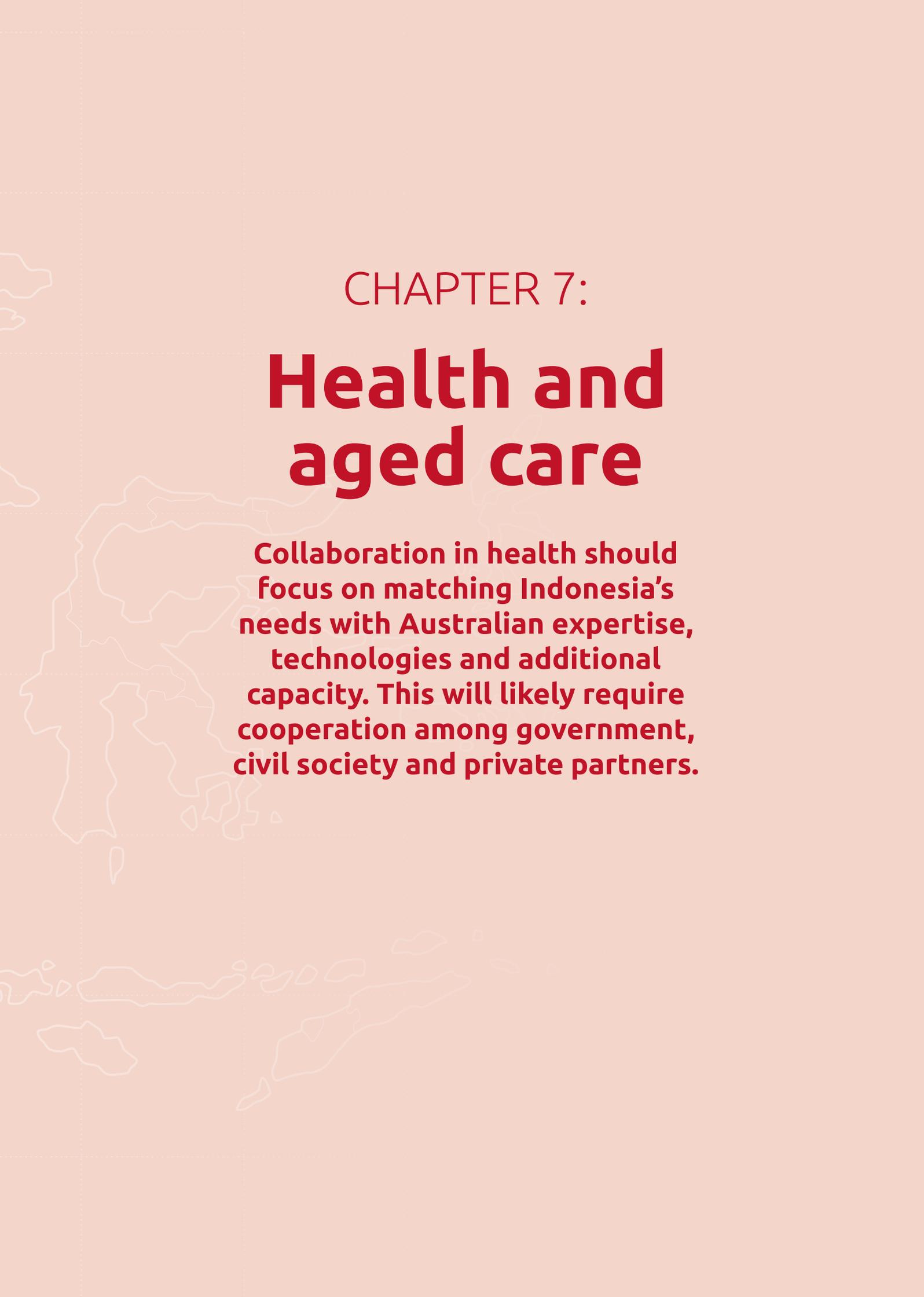
As Indonesia develops rapidly, new trends and challenges are emerging in the provision of health and aged care. While Australia is noted for its well-regarded standards, accreditation frameworks, quality of care, and ongoing professional exchanges, it is not yet a core health partner compared with nations that have been more engaged, such as Malaysia, Singapore and the United States. There are strong opportunities in the provision of non-clinical training, assisting Indonesia with healthcare modernisation, providing training and technology for remote healthcare, and supplying medical devices.

Indonesia has declared human capital development as its top priority, seeking to add 57 million skilled workers to the economy by 2030. While incredible strides have been made in access to education and training in recent decades, poor education quality and mismatched learning outcomes have become the largest challenge. Teachers often lack the subject knowledge and pedagogical skills, resulting in graduates that do not have the skills, especially the soft skills such as leadership, creativity, problem-solving and communication, employers need. Australia's proven capacity to produce skilled workers across multiple sectors makes it a natural partner in delivering the high-quality, competency-based training that Indonesia so urgently needs. Opportunities exist in both improving the quality of Indonesian teachers and lecturers themselves (training the trainer), as well as through directly providing training itself.

Australia is already a dominant agricultural exporter to Indonesia with more than a quarter of Australian goods exports to Indonesia being agriproducts. As Indonesia develops a middle class with discerning tastes, the demand for Australia's quality meat, dairy and crops will increase. The areas of most potent potential are beef, dairy, horticulture, grains (especially wheat), and packaged foods. Creating clear brand recognition of Australian products in Indonesia is an ongoing challenge, but one that if resolved would create further upside for exporters.

Australia is a world leader in Energy and Mining Services (EMS). While Australian EMSs cost more than competitors in Indonesia, there is a clear perception that this increase in price is reflected by an increase in quality. There are opportunities for Australian companies in the areas of mine productivity, mining and exploration software, mining and drilling skills training, and mine safety.





CHAPTER 7:

Health and aged care

Collaboration in health should focus on matching Indonesia's needs with Australian expertise, technologies and additional capacity. This will likely require cooperation among government, civil society and private partners.

Health and aged care

Key points

- **Major commercial opportunities exist due to growing household demand which is unlikely to be met through public investment alone.**
- **Demographic and social trends are placing new demands on the system due to the rapidly changing nature of illness and morbidity.**
- **The government is expanding basic universal healthcare for poorer people as wealthier people seek premium service delivery at home to replace travelling abroad.**
- **IA-CEPA guarantees majority Australian ownership limits for hospitals; in-hospital pathology; various medical and dental clinics; and aged-care services.**
- **New mechanisms are also available for training Indonesia's health workforce in Australia increasing the capacity for a more collaborative approach to health investment.**
- **This chapter looks at opportunities in aged care, training for the health workforce, digital health, medical technology and modernisation of healthcare facilities.**

Opportunities in a fast-changing system

Indonesia's healthcare system requires significantly more investment to ensure it can deliver on the population's healthcare needs. The University of Indonesia has identified that the country will likely require additional investment of \$13.8–22.2 billion (US\$10.2–16.4 billion) per year to support adequate healthcare capacity by 2030. This represents an increase of 20–30% on current expenditure. Healthcare in Indonesia is delivered through a range of public and private services and includes a network of more than 2,800 hospitals and more than 10,000 community health centres administered under a decentralised government.²¹ The Indonesian Government is increasingly working to improve health governance and overcome service delivery challenges, and is exploring trade and market access opportunities to progress its priorities in these areas.

Healthcare has seen drastic improvements over the past five decades, with improvements across key health indicators. For example, life expectancy at birth has significantly increased (from 49 years in 1960 to 71 years in 2019) and the under-five mortality rate has declined (222 per 1,000 live births in 1960 to 24 per 1,000 in 2017).

But major challenges remain in the delivery of health services and improvements in the population's health outcomes. As the population has become wealthier, the burden of disease has shifted from communicable to non-communicable diseases. Diabetes, for example, accounts for the biggest increase in cause of death between 2007 and 2017, rising by 50%. The World Health Organization has estimated that 7% of Indonesia's population has diabetes.²²

Australia's involvement and collaboration in Indonesia's health sector will be shaped by Indonesia's health priorities and is likely to require cooperation among government, civil society and private sector partners.

Figure 7.1: Top causes of death in Indonesia

Indonesia	
Cause of death (per 100,000 people)	
Cardiovascular diseases	251.09
Neoplasms	88.46
Diabetes and kidney	57.42
Digestive diseases	48.7
Respiratory infections/tuberculosis	46.62
Chronic respiratory	38.9
Enteric infections	25.55
Maternal and neonatal	16.72
Transport injuries	15.44
Unintentional injuries	13.4

Source: Institute of Health Metrics and Evaluation, University of Washington

Universal healthcare

Indonesia introduced universal healthcare in 2014. The government agency responsible for the implementation of this (Badan Penyelenggara Jaminan Sosial (BPJS Kesehatan)) estimated that 224 million Indonesians were covered by universal healthcare by the end of 2019. This accounts for more than 80% of the population.²³ The introduction of universal healthcare has seen a shift

to greater government spending on healthcare (as a proportion of total health expenditure and in real terms). In 2017, government spending accounted for 48% of total health expenditure, while private expenditure accounted for the remainder. Approximately 8% of the population has private health insurance.²⁴ The private medical insurance industry is growing quickly, by about 7.7% a year.²⁵

Figure 7.2: Indonesia and Australia health sector by the numbers

	Indonesia	Australia
Spending		
Health expenditure (proportion of GDP)	3%	9%
Health expenditure per capita (\$)	\$150	\$6,703
Resources		
Hospitals (number)	2,877 (1,047 public) ²⁶	1,350 (693 public)
	1 per 100,000	5 per 100,000
Hospital beds	310,710	95,947 (61,647 public)
	1 per 1,000	3.8 per 1,000
Workforce²⁷		
Doctors	0.4 per 1,000	3.7 per 1,000
Nurses	1.5 per 1,000	11.7 per 1,000
Psychiatrists ²⁸	0.3 per 100,000	13.5 per 100,000
Indicators		
Life expectancy	71	82
Infant mortality	24 per 1,000 births	3 per 1,000 births



Image credit: Shutterstock

Key population trends

Demographic change: A growing and ageing population

Indonesia's growing ageing population is putting additional pressure on the health sector. These trends are likely to drive demand for health products and services, especially those targeting the elderly (see *Aged-care solutions* below). The country has a relatively young population with a median age of 29.7 years²⁹ in 2020 and it is still growing at a rate of slightly more than 1%. However, the population is ageing with the proportion of people more than 65 years old set to more than double over the next 25 years from 18.2 million in 2020 to 45 million by 2045.³⁰ Life expectancy for a person born in 2019 was 71 years.³¹

Social change: The rising middle class and inequality

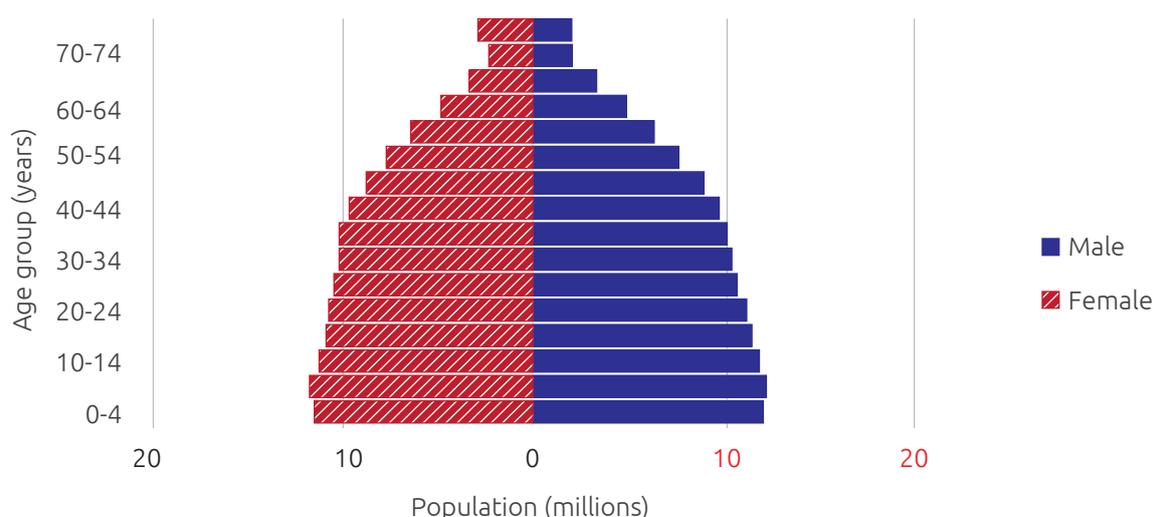
Different socio-economic groups in Indonesia face a variety of health concerns, placing different demands on the health sector. Wealth inequality has risen over the last decade. The World Bank estimates that the Gini Index is 37.8 (where 0 is perfect wealth equality and 100 is perfect inequality) and has increased by almost 10 percentage points over the last two decades.³² For reference, Australia's Gini Index, on most recent

data, was 34.4 in 2014 – an increase of 2 percentage points since 1985.³³ This wealth inequality means that the Indonesian health sector needs to address the very different health challenges faced by the poor and the wealthy. It also means that there is a full spectrum of health services needs in Indonesia, including from preventive to specialised care.

In summary

- Poorer people are still experiencing malnutrition and high rates of communicable diseases such as tuberculosis and HIV/AIDS.
- Middle-class people have good access to healthcare and are seeking private treatment to ensure quality of care.
- Increased wealth has coincided with an increase in non-communicable lifestyle diseases such as obesity, diabetes and hypertension.³⁴
- Many wealthier citizens are taking out private health insurance and attending privately run or overseas health services.
- An estimated 600,000 Indonesians travel to other countries – such as Singapore and Malaysia – for medical procedures per year, costing Indonesia \$1.9 billion a year in lost direct revenue.³⁵ The premium healthcare providers are seeking to capture this market by providing higher quality, internationally competitive services in Indonesia.

Figure 7.3: Indonesia age pyramid (2019)



The urban/rural divide

Access to healthcare and quality of healthcare are key issues in Indonesia. As with other services, access to healthcare in urban areas is better than in regional and rural areas. Geographic factors also determine the prevalence of many environmental health indicators, certain child malnutrition conditions, non-communicable diseases, mental health indicators and behavioural risk factors, amongst other conditions.

In summary

- In 2019, 56% of Indonesia's population lived in urban areas.³⁶ The urban population continues to grow by 2–4% each year.³⁷
- Parts of Indonesia with greater population density also experience the greatest health service advantages, for example in the more densely populated islands of Java, Bali and Sumatra.
- Meanwhile, the less population-dense regions of Kalimantan, Sulawesi, Nusa Tenggara and Papua have the poorest health outcomes.

Significant government health policies

National health strategy

The Indonesian Ministry of Health's (Kementerian Kesehatan) strategic plan runs from 2020 to 2024 and outlines the key national health priorities, which are to:³⁸

- improve the health of mothers and infants, and reproductive health
- accelerate the improvement in the community's nutrition
- improve the control of disease
- embed a culture of a healthy lifestyle known as GERMAS (Gerakan Masyarakat Hidup Sehat)
- strengthen the health system and the control of medicines and food.

The 2021 state budget includes \$16.3 billion (Rp 169.7 trillion) of expenditure on health and includes a priority on increasing and ensuring the equitable distribution of supply, as well as facilitation for the procurement of the COVID-19 vaccine.

Figure 7.4: Health indicator targets in Indonesia's Health Strategy³⁹

Indicator	Baseline	Target 2024
Maternal mortality rate (per 100,000)	305 (2015)	183
Infant mortality rate (per 1,000)	24 (2017)	16
Prevalence of toddler stunting	30.8%	19%
Prevalence of toddler wasting	10.2%	7%

Where to focus

Australia–Indonesia collaboration in the health sector should focus on matching Indonesia's healthcare system needs with Australian expertise, technologies and additional capacity. Australia's health expertise can also be supplemented by identifying and adopting appropriate international standards, further supporting quality improvements in Indonesia's health sector.

Australian Government agencies, businesses, academic institutions, organisations and health professionals have built strong relationships and become respected partners in Indonesia's health sector. Over the last decade as Indonesia's economic prosperity has increased, Australia's involvement in the health sector has evolved.

The Australian Government has shifted from delivering development programs to providing technical support and collaboration on key health issues, most recently, support for Indonesia's health security system and COVID-19 response.

If Australian business, government and civil society can identify shorter term opportunities for bilateral cooperation then this will help build on Australia's reputation as a trusted partner to Indonesia's healthcare system and open up longer-term opportunities. A Team Australia mindset, discussed in *Approaches for Trade and Investment* below, will help Australia collaborate on larger scale opportunities and expand on existing relationships in the Indonesia market.



Image credit: Shutterstock

With this lens, the Blueprint identifies five opportunity areas for Australia to collaborate with Indonesia in the health sector. This section draws heavily on materials produced by the Asia Taskforce and CSIRO.⁴⁰

Education and training for Indonesia's health workforce

There is a need for health staff training in Indonesia to improve quality and availability of health services. The country has a shortage of trained and available medical professionals. For example, in 2018, analysts estimated that Indonesia would require 15 times its number of doctors to meet Organisation for Economic Co-operation and Development (OECD) standards.⁴¹

Australia has extensive expertise in healthcare education and training at vocational and tertiary education levels. Recognised accreditation across the two countries will provide opportunities for training exchanges and help address staff shortages. Indonesia is very keen to raise the quality and quantity of nursing training, and partner with Australian providers. Sector-wide development and improvement will require a better educated health workforce, including not only clinicians but also in management and administration.

Aged-care solutions

By 2045 there will be an additional 26 million people in Indonesia in the elderly age group (65+).⁴²



Image credit: Shutterstock

This demographic shift will place additional strain on current health services and increase demand on a range of healthcare products and services targeted at the elderly.

The elderly population is characterised by high disability rates and a rising prevalence of chronic disease. At the same time, there is limited availability of nursing homes, retirement villages and geriatric clinics. This is largely due to a lack of current demand for these kinds of facilities, with elderly Indonesians being cared for by family. In the short-to-medium term it is likely that the larger opportunity will be in providing home-based care services.

This priority area includes leveraging of Australian expertise in aged care, including training in geriatric services, development of technical solutions for aged-care and aged care associated services (mobility aids, aged-care facilities and specialist geriatric services and training), and their export and implementation in Indonesia.⁴³

Digital health

The use of technology in the delivery of healthcare is seen as a solution to address access, quality and cost of healthcare and to improve the efficiency of the healthcare system and the patient experience.⁴⁴

COVID-19 has resulted in more Indonesians using digital applications to access services online, further driving Indonesia's digitalisation trend. The opportunity to apply digital health solutions to the healthcare system is broad. There are an increasing

number of Indonesian (and a few international) digital health companies established in the market. The country also has a growing start-up ecosystem, with a history of significant international investments in health start-ups.⁴⁵ Australian investment firms, venture capital firms and angel investors may find investment opportunities in the start-up ecosystem, where start-ups like Halodoc boast over 7 million users of their mobile app.

Australian businesses should research the market potential for their product and solution in Indonesia as well as consider potential partners for the distribution and sale of their digital health solution.

For more information on digital health opportunities for Australian businesses, see Asialink Business, [Digital Health in Indonesia: Opportunities for Australia](#).⁴⁶

Skills and workforce capability in health

Education and skills are key to Indonesia improving its standards and quality of care. The Indonesian Government's development and growth agenda places significant emphasis on improving human capital, including by setting an ambitious goal of adding 58 million skilled workers by 2030. IA-CEPA will provide support for Indonesia to train and upskill its health workforce, and the pilot of the Workplace Skills Training Program, for example, will allow for up to 200 Indonesians to receive workplace training in Australia in key sectors, including health.



IA-CEPA Outcomes: Workplace Skills Training Program

A Memorandum of Understanding between Australia and Indonesia will focus on skills development through a pilot program on workplace-based training. The pilot will allow up to 200 Indonesians per year to receive workplace skills training in Australia. The participants must be sponsored by an approved organisation in Australia and may undertake workplace-based training in Australia for up to 6 months in the following sectors: education, tourism, telecommunications, infrastructure development, health, energy, mining, financial services, and information and communications technology. This is a further example of IA-CEPA and related agreements providing opportunities for skills development that will help our close neighbour, Indonesia, build the skills of its young people and forge the lasting people-to-people links on which the future relationship of Indonesia and Australia will depend.

Source: DFAT

For further information on Indonesia's education needs and the education sector see Chapter 8: Education, skills and training.

Medical devices and equipment

Indonesia's medical device and equipment market was valued at \$3.8 billion (US\$2.9 billion) in 2019.⁴⁷ The Indonesian medical device and equipment market relies significantly on imports. Austrade estimates that 90% of medical devices in Indonesia are imported.⁴⁸ The majority of Indonesia's medical equipment distributors are based in Java, with 68% of Indonesia's 3,381 distributors located in Java. Indonesia's growing medical technology market is an opportunity for Australia's medical technology manufacturers.

Australia is among the world's leaders in health research, and the development of health technology and devices.⁴⁹ But Australia will likely have to compete against businesses and manufacturers from Germany, China, United States and Japan in Indonesia's medical device market.⁵⁰ Conducting market research and developing a market entry strategy will be key for success in the market. For more information, see *Approaches to trade and investment* (below), and *Developing an Indonesia strategy* (in Appendix 1).

Other areas of Australian expertise that can be leveraged in this priority area include the provision of surgical equipment, medical imaging and clinical laboratory equipment for diagnostic tests.⁵¹ There may also be opportunities for Australian businesses in biotechnology and pharmaceuticals.

Modernisation and expansion of healthcare infrastructure

Australia can support Indonesia to expand much needed hospital and healthcare facilities, including pathology labs and medical clinics. Australia has a strong reputation in the delivery of quality health services and infrastructure.⁵² Large Australian healthcare companies such as Ramsay Health (through Ramsay Sime Darby) and Aspen Medical are at different stages of investment in Indonesia. Ramsay has a small network of private hospitals, while Aspen Medical has just announced a \$1.3 billion venture for the provision of 650 healthcare clinics and 23 hospitals in West Java by 2040.⁵³

Opportunities may arise in the design, construction and operational management services of healthcare facilities, including hospitals, pathology labs, medical imaging clinics and allied health. There will also likely be opportunities for investment in projects under shared ownership arrangements including public-private partnerships.

Investment in Indonesia's health sector

Indonesian domestic policy is increasingly supportive of international participation in the health sector, and more broadly. Recent reform, including the passing of the Job Creation Law, aims to improve the business environment for foreign investors. The health sector is likely to benefit from this reform and is in significant need of greater investment in order to meet the growing needs of the Indonesian population.

Opportunities from the trade deal

Australian companies are now allowed to have majority ownership limits of large hospitals and aged-care service providers based in Indonesia under IA-CEPA.⁵⁴ All Australian companies must partner with an Indonesian company and must have at least a local Indonesian office or local distributor.

To invest in a hospital, Australian companies and their Indonesian partners must secure a recommendation from the BKPM.

Approaches to trade and investment

The health sector is particularly well suited to a "Team Australia" approach, in which government, business and civil society find opportunities of mutual interest to work together. Team Australia collaboration should be applied to identifying opportunities, planning for market entry, execution and implementation and in building sustained bilateral relationships with Indonesian counterparts.

Australian business, government and civil society are well placed to collaborate and look at ways of providing holistic solutions to Indonesian healthcare companies and government. This sort of approach or mindset will also be useful for addressing key challenges (see *Challenges, constraints and risks* below).

This section sets out a vision for Australian collaboration in health, which will be supported by the existing ecosystem of Australian Government agencies (at federal and state levels), industry and civil society. A Team Australia approach to Indonesia's healthcare system should build on the following key principles.

Co-creating a long-term vision with Australian and Indonesian stakeholders

Australia should look to support Indonesia's health sector in areas of mutual benefit. Understanding where Australia can make a valuable contribution to Indonesia will be critical, but it should also be seen in the context of broader two-way collaboration.

In the short term, this will likely require further information and education for business, government and civil society on Australia's and Indonesia's strengths and further input on areas of mutual benefit.

A collaborative approach with Indonesia will be key to enduring cooperation and as a basis for growing opportunities in bilateral trade and investment.

Working across business, government and civil society in Australia

Australian businesses looking to operate in Indonesia's health sector will encounter Indonesian Government, businesses and civil society as they look to position themselves in the market and gain regulatory approvals. The benefits of being able to draw on a Team Australia approach in this instance would be in leveraging existing relationships across government, business and civil society and drawing on collective experience to improve the business approach to the Indonesian market. It will be equally important for business to share learnings and experience back with the Australian Government and broader industry.

Australia has a significant history of cooperation with Indonesia's health sector and large parts of this cooperation have existed at the government-to-government level and in civil society. Australian business, like government, has a significant role to play in ensuring that it too can contribute to broader sectoral developments and the improvement of health outcomes in Indonesia.

Building on Australia's health sector brand

Australia's healthcare system is globally renowned for delivering good health outcomes effectively and efficiently. Team Australia can build on this brand, including by conducting more educational awareness and outreach on Australian capabilities to key Indonesian associations and stakeholders.

Setting a long-term vision

Australia will need to show its commitment to the Indonesian health sector over a long period of time. Short-term wins are unlikely in Indonesia's market, where long-term relationships based on trust and commitment are key to doing business. Communicating a commitment to the market through a range of activities and across government, business and civil society will strengthen Australia's value proposition to the Indonesian health sector and build a strong basis for ongoing collaboration.

Activities to consider for building Team Australia in the health sector

Note: The activities listed below were developed during Health Sector Workshops for this Blueprint held on October 30, 2020 and November 3, 2020.

Short term (<1 year)

- Establish working groups of business, government, education and civil society to develop a blueprint for Team Australia collaboration.
- Work with Indonesian governments (national and subnational), private sector hospital and medical centres, and university research centres, to develop a prioritisation framework for skills, standards and technology needs.
- Establish Australian consortia – that include business, higher education, vocational education and training – in key subsectors of health at national or subnational levels.

- Map and engage Australian and Indonesian alumni to support the development of Team Australia's approach to the Indonesian health sector.
- Develop Australian and Indonesian understanding of areas for collaboration through activities such as events, public forums and trade missions.
- Conduct initial assessment and road-mapping exercise for standards harmonisation and support in the health sector.

Medium term (1–5 years)

- Develop success stories of Australia–Indonesia engagement across business, government and civil society.
- Clearly articulate Australia's value proposition as a brand in Indonesia's health sector.
- Leverage existing networks and relationships, such as in research collaboration, to generate pathways into priority areas in Indonesia's health sector.
- Understand interconnectedness between the health sector and other key areas of bilateral trade and investment, particularly education and skills.

Long term (>5 years)

- Define and articulate a strong, cohesive Australian brand in Indonesia's health sector.
- Develop a roadmap for standards harmonisation across the sector.

Challenges, constraints and risks

There are challenges, constraints and risks operating in any market, and often these are heightened in overseas markets where operators do not have the experience, knowledge or networks that they do in their home country. Business and civil society should conduct due diligence and seek professional advice to inform their market entry or expansion strategy and to understand their risk exposure. Further information is provided in *Developing an Indonesia strategy* (in Appendix 1).

This section highlights the nature of the key challenges in the health sector.

Is there a market for Australian products and services?

Indonesia presents a very different market for Australian health operators. On average, Indonesia's health outcomes, advancement of healthcare facilities and quality of health services are not as advanced as Australia's (see Health Indicator Infographic). For certain medical technology and health services this may pose challenges in a lack of supporting health infrastructure or lack of skilled professionals able to support the delivery of services – or with the requisite knowledge and experience to use and maintain medical equipment and technology.

This challenge illustrates the need for a broader ecosystem approach to the Indonesian system in which Australia collaborates to improve health outcomes which will provide medium-to-long-term opportunities for further Australian health products and services. Australia can also help in developing treatment pathways and policy.

But Indonesia's health sector is also not uniform. Key segments of the market, particularly the premium segment, are driving demand in Indonesia for world-class health technologies, a highly skilled medical workforce and best-practice hospital management systems and infrastructure. Indonesia's premium market is aiming to recapture

the outbound medical tourism market valued at around \$1.9 billion a year in direct revenue. The premium healthcare users are looking for world-class health services and facilities and provide a shorter-term market opportunity for Australia.

Case study and health sector resources

The following short case study highlights a recently agreed health sector joint initiative. Additional resources listed below may provide some useful information to businesses looking to increase their understanding of the Indonesian health sector markets.

CASE STUDY

Aspen Medical, DOCTA and PT Jasa Sarana

Overview

West Java Health Infrastructure Program is an initiative of the Governor of West Java. The fundamental principle of the program is to improve the quality of healthcare services, and access to those services, across the province to improve the health and welfare of the communities and peoples of West Java.

The program consists of two distinct but interconnected projects:

1. A Tertiary Health Project dedicated to the establishment of up to 23 hospitals across the province, through either construction (green sites) or refurbishment or upgrade (brown sites).
2. A Primary Health Project dedicated to the establishment of over 600 primary healthcare clinics utilising both modular and mobile concepts.

The requirement to manage, operate and maintain will also be considered and negotiated on a case-by-case basis.

Approach

Aspen Medical, DOCTA and PT Jasa Sarana (a business entity belonging to the Government of West Java) have teamed, through a joint venture, to create a special purpose vehicle (SPV) within Indonesia. The SPV will be responsible for the management and funding of the program. Funding for the program is a combination of debt and equity. Operating models will be determined in consultation with the various districts and may vary across locations.

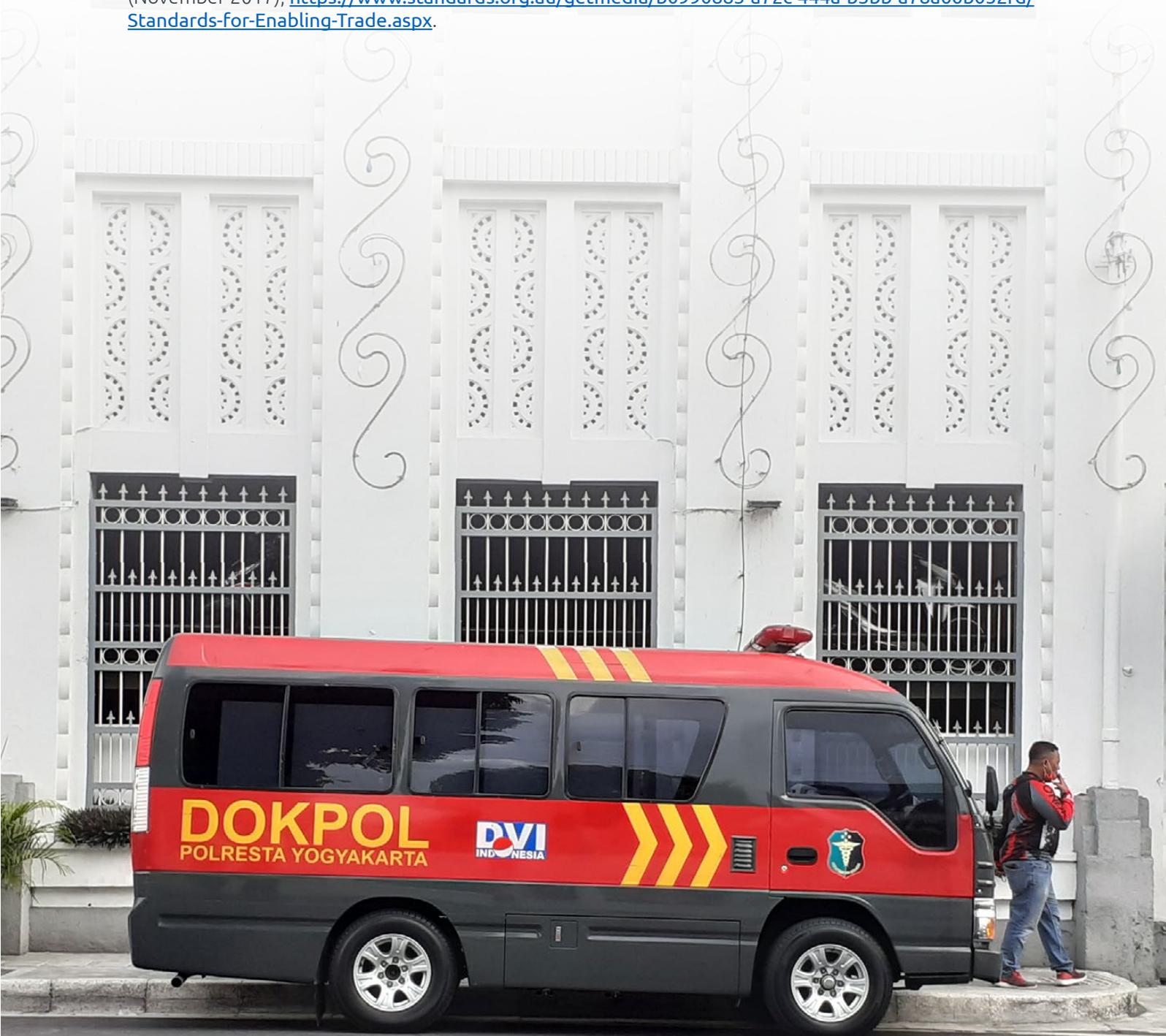
Workforces and resources will be primarily recruited from within Indonesia to create employment opportunities, support local economies and build capacity to support a sustainable outcome. Engagement of local expertise from within the health sector was critical to ensure that Australian entities remained informed and compliant with relevant laws and legislation. Engagement of a local legal firm, though at times costly, did also prove beneficial when establishing our business platforms and contractual mechanisms.

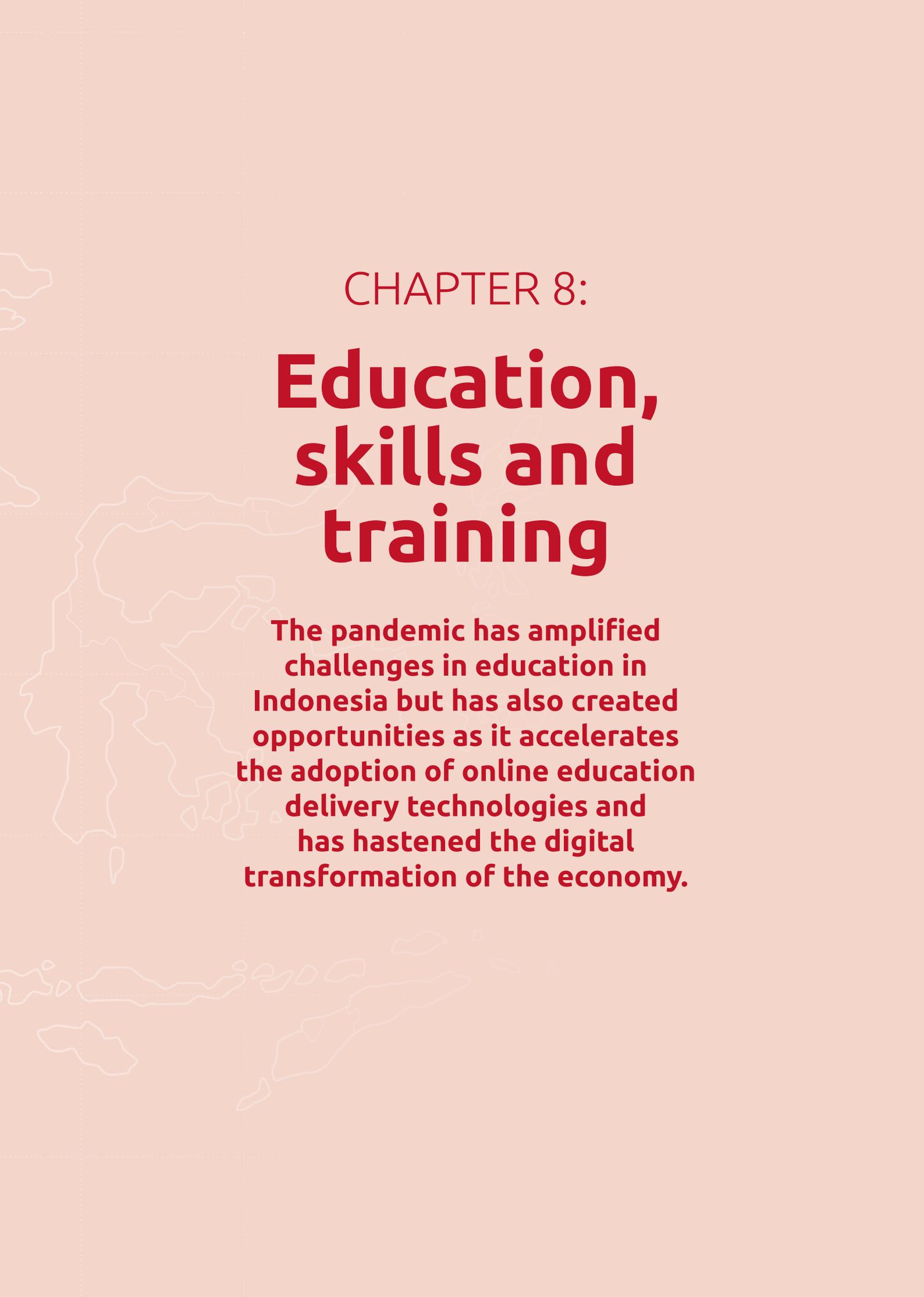
Outcomes

The strategic objective is to build on West Java's health capability and to serve as a stimulus to the economy through the establishment of jobs in the health, construction, and allied industries.

Further information and resources

- See Doing Business in Indonesia in Appendix 1.
- Indonesia Country Starter Pack, Asialink Business, <https://asialinkbusiness.com.au/research-resources/indonesia-country-starter-pack>.
- Indonesia Market Insight, Australian Department of Foreign Affairs and Trade, <https://www.dfat.gov.au/sites/default/files/indonesia-market-insight.pdf>.
- Indonesia's Healthcare Market, Australian Trade and Investment Commission (Austrade), <https://www.austrade.gov.au/australian/export/export-markets/countries/indonesia/industries/healthcare>.
- Indonesia Healthcare Investment, Asia Taskforce, https://asiasociety.org/sites/default/files/inline-files/Asia_Taskforce_Discussion_Paper_5_Indonesia_Healthcare_Investment.pdf.
- Digital Health in Indonesia: Opportunities for Australian Business, Asialink Business (2020), https://asialinkbusiness.com.au/uploads/documents/MTPC_2019_Asialink_Business_Digital_Tech_Indonesia.pdf.
- Standards for Enabling Trade – Mapping and Gap Analysis Study: An IA-CEPA Early Outcomes Initiative (November 2017), <https://www.standards.org.au/getmedia/b0990883-a72c-444a-b3bb-a78a66b052fd/Standards-for-Enabling-Trade.aspx>.





CHAPTER 8:

Education, skills and training

The pandemic has amplified challenges in education in Indonesia but has also created opportunities as it accelerates the adoption of online education delivery technologies and has hastened the digital transformation of the economy.

Education, skills and training

Key points

- **The government has made human capital development a top priority as it seeks to add 57 million skilled workers to the country's economy by 2030. The ambitious program will require new, creative and more comprehensive forms of international education partnerships.**
- **Australia's existing education and training networks with Indonesia provide an invaluable foundation for developing new and innovative partnerships in this sector.**
- **This chapter focuses on the higher education and vocational and technical education sectors as both feature prominently in the Indonesian Government's human capital development agenda. But there are other opportunities for English language training providers and schools.**
- **The Making Indonesia 4.0 flagship initiative covers five sectors – food and beverage, textiles, automotive, electronics and manufacturing – but these also intersect with health, education and energy.**
- **The market can be entered via strategic partnerships, joint ventures or consortia. The consortia model showcases a combined national approach to pursuing opportunities especially in the food, health and digital sectors covered in this Blueprint.**

Education and the demographic dividend

Indonesia's demographic advantage is its young, growing and urbanising population. Realising fully that advantage means an enormous investment in human capital to equip the still fast growing workforce with the skills for a 21st century economy. Right now, the country has neither the quantity nor the quality of skilled workers it needs, with 59% of its workforce made up of junior school graduates (equivalent to Grade 1 to 10).^{*} Closing this skills gap is a top priority for the Indonesian Government. Doing this means doubling its current

output of work-ready graduates. The Ministry of Manpower, for instance, estimates it requires at least 3.8 million new skilled workers a year.

The situation is improving but has far to go. The number of secondary and tertiary graduates grew between one and two million a year from 2010 to 2015, but even this achievement leaves the country well below the international average. In 2017, for instance, 11.9% of adults (25 to 64-year-olds) had attained tertiary education. This is well

^{*}These figures are from the National Medium-term Development Plan 2020–2024, Rencana Pembangunan Jangka Menengah Nasional 2020–2024, Indonesia Berpenghasilan Menengah – Tinggi yang Sejahtera, Adil, dan Berkesinambungan

below the [OECD average of 44%](#)⁵⁵ and the G20 average of 38%, and the [World Bank estimates](#) that Indonesia will need to lift its average to at least 21% to meet labour market demands.⁵⁶ In senior secondary education, Indonesia has attained 45%. This will need to grow to 52% by 2024 to meet the government workforce targets.

The skills gap is also apparent in the country's workforce capabilities. Indonesia lacks highly skilled workers and qualified professionals, and despite efforts to expand access to education, local institutions still struggle to deliver the types of graduates the country needs. A [2017 International Labour Organization report](#) showed that almost 20% of Indonesian workers were underqualified.⁵⁷ In 2006, the figure was 11.5%. In 2014, two-thirds of companies surveyed by the World Bank said it was difficult finding qualified employees for professional and managerial positions. Almost 70% of manufacturers struggle to find skilled engineers. And the 2017 Global Human Capital Development rankings show Indonesia lagging behind other ASEAN nations despite making significant progress.

The system explained

Indonesia's education system is large and complex, with multiple ministries and agencies having oversight, policy and regulatory roles.

Higher education

Indonesia's higher education system has two main streams. The national network of public and private tertiary education institutions (Figure 8.2) report to the Ministry of Education, Culture, Research and Technology (Dikbudristek), which was created in April 2021 from the merger of two older ministries dealing with education and research. Other institutions are managed by the Ministry of Religious Affairs.

Recent enrolment data from the seven major regional zones shows the size and potential of the sector. Java, with more than half of Indonesia's population, has nearly 5 million students enrolled at public and private institutions. Sumatra has over 1.5 million (from a population of 50 million) and Sulawesi 776,664 (from a population of 17 million – see Figure 8.3).

In the wider Jakarta metropolitan region home to 31.6 million people, of which 30% are aged 15–29, more than a million are enrolled in higher education institutions. This region also has the highest number of private enrolments, representing about 30% of Java-based students. East Java has the second most enrolled students, at 994,687, followed by West Java with 878,512.

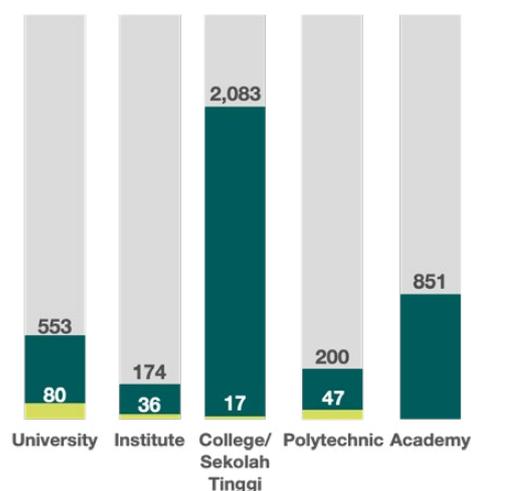
Figure 8.1: Top-performing ASEAN countries in the Global Human Capital Development rankings

Country	Rankings
Singapore	11
Malaysia	33
Thailand	40
Philippines	50
Brunei	28
Vietnam	64
Indonesia	65

Source: 2017 Global Human Capital Development ranking

Tackling the massive skills gap will require international collaboration, and Australia's proven capability to produce skilled workers across multiple sectors makes it a natural partner in delivering the high-quality, competency-based training that Indonesia so urgently needs.

Figure 8.2: Number and types of tertiary education institutions

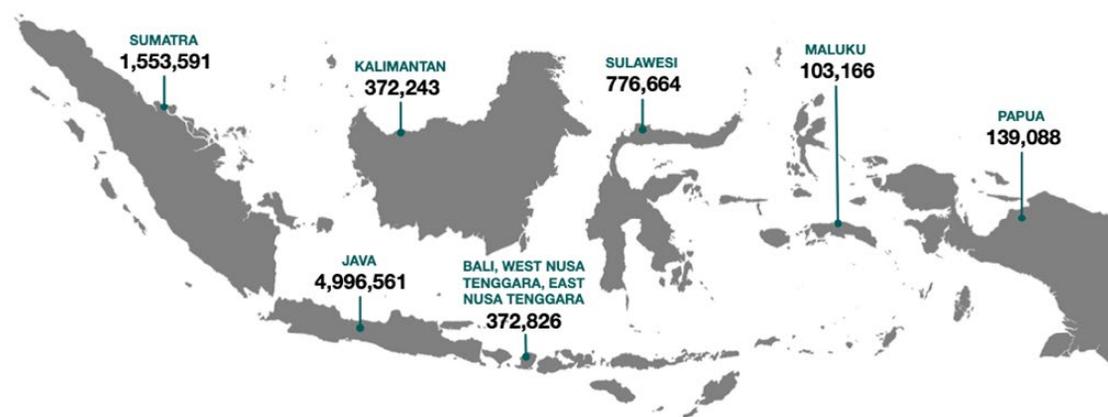


The total number here is 4041 centre. This consists of campuses overseen by the Ministry of Education and Culture and Islamic campuses overseen by Ministry of Religion. The actual national total is 4,621. The difference is made up of campuses run by other ministries and campuses overseen by Ministry of Religion that are not Islamic. For example, there is a network of state run Christian and Hindu campuses as well.

Source: RISTEKDIKT, 2019



Figure 8.3: Total student enrolments at public and private higher education institutions (2019)



Source: Ministry of Research, Technology & Higher Education statistics

Vocational training

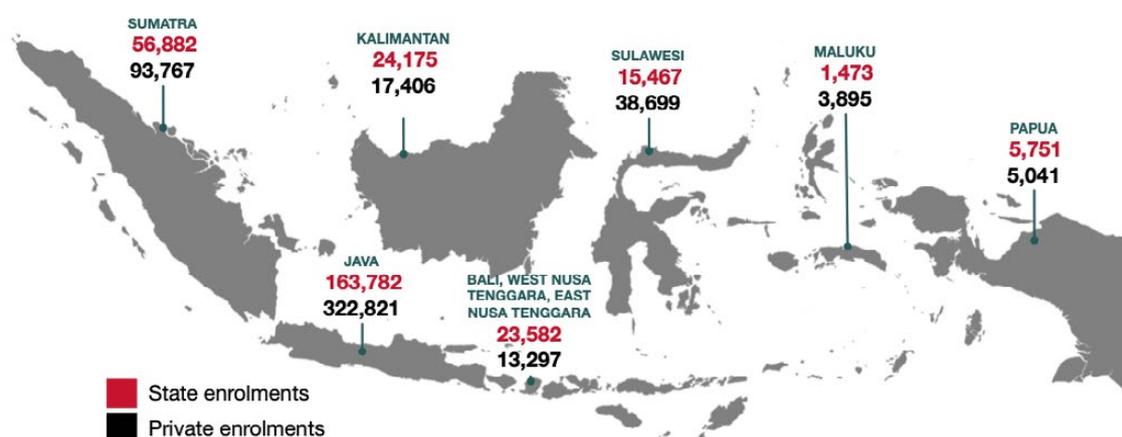
The Indonesian Government's priority focus is vocational education and training (VET, usually known as TVET in Indonesia for technical and vocational education and training). There are polytechnics and training centres in every capital city, and the government has established professional accreditation bodies to help advance the sector's transformation. Indonesia has four types of TVET institutions:

- **Upper secondary school:** Students can either study at a general senior high or one of the country's 13,710 specialised vocational high schools (SMKs). In 2017/18, nearly 5 million Indonesians attended an SMK, which offer vocational and technical skills in areas such as economics, tourism, agriculture, and aeronautics.
- **Tertiary vocational education:** Stand-alone polytechnics, as well as specialist universities and institutes, offer practical industry-focused diplomas or applied degrees, requiring between 2 and 4 years of study.

- **Public and private technical training centres:** Workers Training Centres (BLKS) provide non-formal, technical education to address specific skill requirements for particular industries. Private centres, including foreign Registered Training Organisations (RTOs), offer similar programs.
- **Private training companies and government ministries/agencies:** Dedicated centres that provide training and apprenticeships to new and existing workers to pick up immediate skill needs or upgrade current skills.

Figure 8.4 provides a snapshot of the size and potential of the vocational education market. Java has the largest number of state and privately (fee-paying) enrolled students (486,603), followed by Sumatra (150,649) and Sulawesi (54,166).

Figure 8.4: Total number of state and private students studying Diplomas (D1 to D4) – Information also includes students studying in institutions overseen by the Dikbudristek and other agencies



Source: Statistik Pendidikan Tinggi 2019 from Ristekdikti

Ministerial responsibility

The type of institution determines its reporting requirements. The Dikbudristek manages 70% of all institutions, and the Ministry of Religion oversees 18%. Several other technical ministries and agencies handle the remaining 12%. At the tertiary education vocational level, for instance, the Ministry of Tourism operates a network of six Sekolah Tinggi (Colleges) and polytechnics. The newly restructured Ministry of Research and Technology also plays a role in guiding research at higher education and dedicated research centres.

In the TVET sector, the Dikbudristek is primarily responsible for polytechnics and SMKs. There are other ministries, like the Ministry of Industry, that oversee sectoral-specific SMKs and polytechnics. The Ministry of Manpower leads the national network of BLKs. Manpower also has administrative oversight in the operation of foreign RTOs and companies with in-house vocational training centres. Provincial and local authorities are also heavily involved with SMKs and BLKs.



The drivers of change

Understanding training needs, pricing strategy and access to markets are critical factors in shaping education providers' evaluation of opportunities in Indonesia.

Demand

Indonesia has a high demonstrated demand for education and training services that will only increase. Euromonitor predicts the country's higher education sector alone will grow at a compound annual rate of 10.3% between 2016 and 2025 by which time it will be worth US\$118 billion.

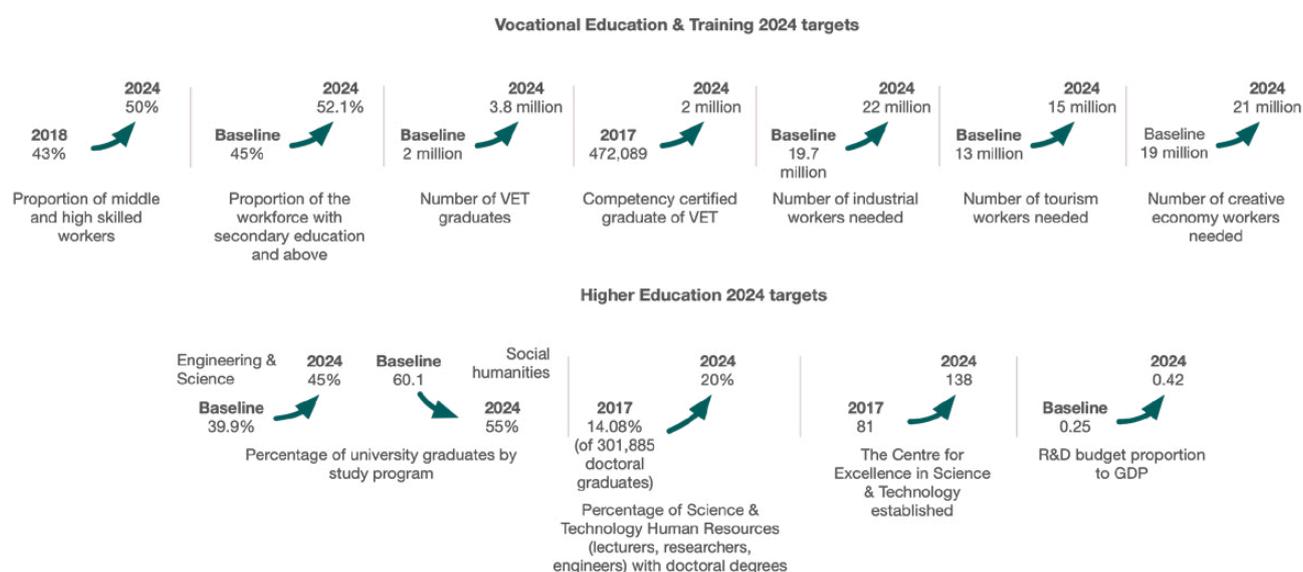
This demand is being fostered at the highest level. In his second term, President Joko Widodo has made human capital development, especially vocational education and training, a national priority. The country has created a 5-year plan to respond to identified challenges such as a dearth of science and engineering graduates, study programs that don't meet industry needs, a lack of an industry-oriented curriculum, and poor-quality teaching and facilities. The plan sets ambitious targets for improvements by 2024 (Figure 8.5), and lays out priorities that include:

- increasing the number of science and engineering higher education graduates

- boosting universities' science and technology capacity through research cooperation, locally and internationally
- improving university–industry linkages to increase research translation, including tax incentives for investment in research
- improving graduate employability through industry-oriented curriculum in both higher education and VET sectors
- working with industry to develop competency standards, accreditation and certification systems
- increased use of work-integrated learning, apprenticeships and internships to better align vocational training with workplace needs
- improving governance of the VET sector and improving skills of teachers
- developing study programs that align with national and regional priorities
- improving the quality of online higher education delivery, which includes training of university lecturers and development of quality teaching and learning resources.

Besides the national 5-year plan, there are a range of other plans that are being developed by the Ministry of Education, covering areas such as online education delivery.

Figure 8.5: Indonesia's 2024 human capital development targets for VET and higher education



Source: Indonesia's National Development Plan 2020–2024



Image credit: Shutterstock

Beyond the national focus on education, there are strong sectoral and regional initiatives in place aimed at producing highly skilled workers across industries and driving the digital transformation of Indonesia's economy. These are more fully addressed in the section *Opportunities for Australian providers*.

Access to markets

Indonesia has a complex regulatory environment, and foreign education providers have entered into local partnerships prior to operating in the country. There are currently three models for overseas providers: strategic partnerships, consortia and joint venture/ownership (discussed further in *Opportunities for Australian providers*). As human capital development has been its highest priority, Indonesia has been changing policy and regulation settings to improve access for foreign education and training providers.

Two recent developments, IA-CEPA and Ministerial Regulation 53 of 2018, are particularly important in giving Australian providers a degree of certainty and creating new opportunities to deliver higher education and training in Indonesia.

IA-CEPA makes vocational education and training a priority in the partnership, allowing majority Australian ownership anywhere in Indonesia. The Indonesian Government has also committed that any further relaxation of investment restrictions would automatically include Australian providers. In addition, the ambitious newly enacted Omnibus Law on Job Creation provides more clarity and regulatory security, including the provision of

fiscal and other incentives, for the Indonesian Government to establish Special Economic Zones that focus on certain sectors including education.

Australian providers can offer subjects including technical engineering, business administration, languages, tourism, management, information technology, art and agriculture. IA-CEPA assures Australian investors that they would not be subject to any potential future restrictions on equity holdings in Indonesia.

The passage of Ministerial Regulation 53 of 2018 on Foreign Institutions opened the way for tertiary institutions recognised as among the top 200 in the world to establish stand-alone campuses in Indonesia and in Special Economic Zones. Conditions include that such campuses be established as not-for-profit institutions, have at least two faculties among the science, technology, engineering and mathematics (STEM) disciplines, and include core Indonesian subjects such as Pancasila, religion, civics and Indonesian language at undergraduate level.

The new Job Creation Law amended or replaced 76 pre-existing laws, with the objective of encouraging investment and jobs through a combination of sectoral deregulation and reducing red tape.

The full impact of the new Law will take some time to be realised, as it depends on Constitutional Court challenges and the raft of implementing regulations that must now be developed. And while the original draft included further deregulation of the higher education sector, some of these reforms were dropped during deliberation, meaning the 2012 Law on Higher Education remains unamended.

New issues for investors

There are two primary cross-cutting issues now affecting Indonesia's education sector, and they are closely related. The first is the COVID-19 pandemic, which has affected traditional business models across all sectors. It has also affected, and delayed in some instances, education and training activities facilitated by IA-CEPA. The second is the digital transformation of Indonesia's economy, one of the country's highest priorities.

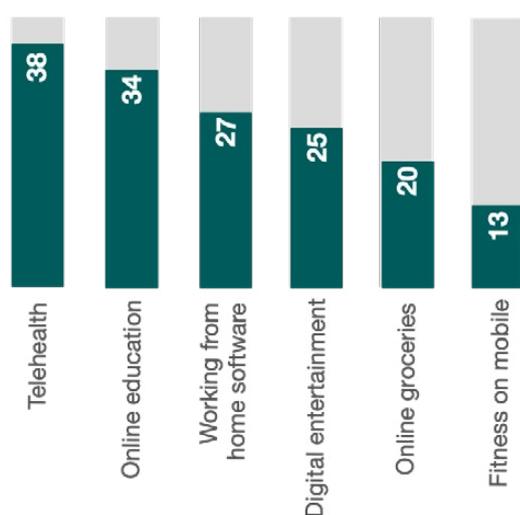
Pandemic impact

The pandemic has amplified Indonesia's online education challenges. It has also increased opportunities for innovative technology solutions that can raise the quality of teaching and achieve better learning outcomes.

It has disrupted the education sector by moving millions of Indonesians to learn online. This has involved about 65 million students, from primary to higher education. Demand and use of learning technologies and applications have skyrocketed in education (Figure 8.6). According to the Dikbudristek, 98% of tertiary institutions moved their courses online, with the majority of students relying on mobile phones to access learning tools.

The Dikbudristek responded to the pandemic by subsidising internet costs for students and teachers, supporting the purchase of ICT equipment for those

Figure 8.6: Percentage of consumers trying apps for the first time during the pandemic (2020)



Source: Mobile Marketing Association

that needed it and partnering with edtech providers to grant free access to online courses. Schools, TVET and universities adapted by changing their online teaching and learning approaches, with many attempting to emulate the classroom experience rather than the learning pedagogy, such as taking a blended approach.

Technology is now widely used to support remote learning. Telkomsel, one of the largest telecommunications providers, recorded an increase in broadband traffic of 16% during the pandemic. Local edtech firm Ruangguru reported a jump from 7.5 million to more than 11 million users per month.

Now digital education is here to stay. The government is seeking to improve its ICT infrastructure. It is also planning to improve the skills of lecturers to deliver online courses. The adoption of new education business models, the application of online learning tools, the use of blended learning in curricula, increased interest in offering digital TVET, and growing demand for training that supports curriculum design, online teaching and student learning are all expected to grow.

Digital transformation

The Indonesian Government is consciously bringing its economy into the digital age, with initiatives such as the 2016 E-Commerce Roadmap, its flagship 2018 policy *Making Indonesia 4.0* and its 2020 Artificial Intelligence Roadmap. *Making Indonesia 4.0* aims to improve the country's manufacturing competitiveness and productivity through technology and is integrally tied to developing a workforce with the digital skills to drive that change. It includes a proposed 5 year \$30 billion spend on TVET to support *Making Indonesia 4.0* initiatives, and plans to develop higher education as a centre of technical excellence.

The digital economy was already the fastest growing sector in the country pre-COVID-19, and the pandemic is only accelerating that. The education technology sector, primarily driven by firms such as Harukaedu (a platform offering online university degrees), Ruangguru (an interactive K-12 learning platform) and Zenius [will continue to expand](#).⁵⁸ But many firms offer products aimed at administration and student management, with about 30% of edtech firms specialising in learning management systems and 25% offering online learning services, test preparation, upskilling and career development support.

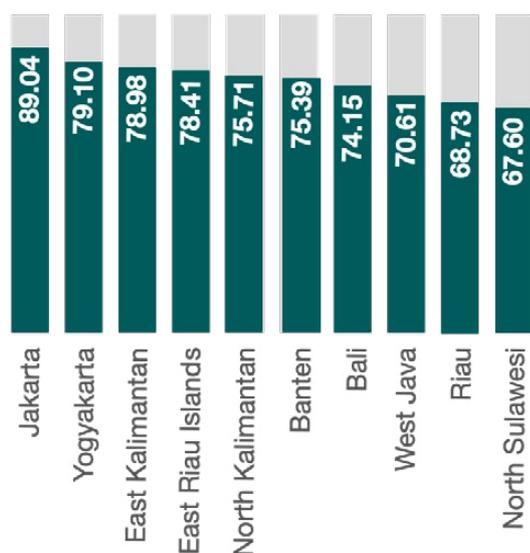


Image credit: Shutterstock

According to a recent Dikbudristek survey, most students say they are prepared for online learning, but many are still having difficulty participating. A recent [Ureport survey](#) found 38% of 3,839 respondents felt that they lack adequate guidance from their instructor in the learning process.⁵⁹ The same survey found that 27% struggled to engage due to poor internet connectivity.

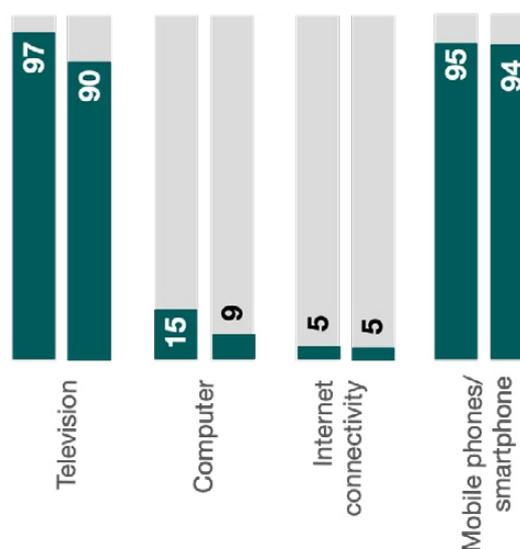
While the government continues to invest in digital infrastructure and connectivity, particularly for rural and remote island communities, connectivity remains slow, averaging 13.79 Mbps (9.82 Mbps for mobile phone). Australia, as a comparison, was recently reported to have the fourth slowest internet in the OECD yet with an average of 41.78 Mbps.

Figure 8.7: Top 10 provinces for internet access (% per household) (2018)



Source: BPS (Statistics Indonesia)

Figure 8.8: Availability of household items by urban/rural areas (%)



Source: World Bank (2020)

Opportunities for Australian providers

Indonesia's training needs are substantial and growing. International providers have a big role to play in meeting those needs, and there are many opportunities for Australian organisations to expand into a fast growing economy.

These opportunities exist at three levels: national, sectoral and subnational. All are informed by national and regional development plans, regulations and, where relevant, thematic roadmaps. We mapped Australia's capabilities and competitive advantages against those needs, and found many Australian institutions are strongly placed to contribute.

At the national level, programs such as *Making Indonesia 4.0* are strong drivers for expanded education and training. At sectoral level, many

priority areas align well with Australian expertise. Subnational may be particularly interesting, as Indonesia's 34 provinces and their cities and districts represent about half of the country's public expenditure and run their own skills and development programs. Many provincial governors are young and progressive and committed to transforming their regions through innovation and development.

Importantly, these opportunities align with not only Indonesia's human capital development objectives and the goals of IA-CEPA, but also with Australia's new International Education Strategy for 2021 to 2030.

Figure 8.9: IA-CEPA offers opportunities and skills development packages for Australian providers

Package	Description
Indonesia-Australia Skills Development Exchange Pilot Project	This gives businesses from Australia and Indonesia the opportunity to send employees to work for up to 6 months in the other country. The program aims to provide an opportunity for exchanges to develop their workplace skills while strengthening cooperation and understanding.
Work and Holiday Arrangement	Australian and Indonesian travellers aged between 18 and 30 can work and holiday in the other country for up to 12 months. The annual limit of Work and Holiday visas for Indonesians will rise from 1,000 places to 4,100 places on entry into force of IA-CEPA, and will be stepped up to 5,000 by the 6th year.
Workplace Skills Training Program	This allows up to 200 Indonesians per year to receive workplace skills training in Australia for up to 6 months. An approved organisation in Australia must sponsor the participants. Eligible sectors are education, tourism, telecommunications, infrastructure development, health, energy, mining, financial services, and information and communications technology.

Once the COVID-19 crisis has passed, this important component of IA-CEPA will constitute an enabler to support, develop and strengthen partnerships including on a commercial basis between the two countries and help to ensure that Australian education and training providers remain the preferred partner for Indonesia.

IA-CEPA seeks to help Indonesia close its skills gap by facilitating training, catalysing TVET reform and strengthening higher education. Providers wishing to engage with Indonesia should consider targeting priority areas linked to IA-CEPA's Economic Cooperation Program (ECP), Katalis, launched in 2021. Katalis' objective is to ensure the efficient and effective implementation of IA-CEPA, covering, in its initial stage, activities in agriculture, manufacturing and services. It's also worth noting that IA-CEPA's provisions for mutual recognition of qualifications in professions such as engineering and nursing is likely to drive demand from young Indonesians.

Complementing the IA-CEPA strategy is the Australian International Education 2025 (AIE2025) which identifies what the sector needs to do to capitalise: competence at scale, embrace borderless learning 24/7, unleash technology, sharpen market focus, attract global capital and maintain an Australian edge. Recently the Australian Minister for Education announced the development of the 2021–2030 International Education Strategy, which will emphasise market diversification and an online education push to drive recovery from the pandemic.

National level

The key priorities of *Making Indonesia 4.0* include developing human capital, building national digital infrastructure and boosting research and development (R&D), with five sectors of focus: food and beverage; textiles and apparel; automotive; electronics; and chemical. Achieving its goals will require sharpening the industry focus of both the TVET and higher education sectors, reforming certification and accreditation systems, boosting STEM graduates and fostering a culture of innovation and technology. Establishing technology parks and strengthening international institutional research links are other key initiatives.

Sectoral level

The implementation of *Making Indonesia 4.0* is outlined in a roadmap designed by the Ministry of Industry. Its primary focus is on improving connectivity and digital transformation, especially in increasing the efficiency of the manufacturing chain, participation in the global value chain and product quality. Three features of the roadmap stand out: emphasis on the use of digital to spur productivity and competitiveness of small and medium enterprises; encouraging enterprise development through technological innovation and start-ups; and building and using artificial intelligence, driven by big data capability. *Making Indonesia 4.0* aligns with IA-CEPA, especially in three sectors: food and agribusiness, healthcare and digital services.

Figure 8.10: Key priorities for TVET and higher education under Making Indonesia 4.0

Making Indonesia 4.0	
Key priorities – TVET	Key priorities – higher education
<ul style="list-style-type: none"> • US\$30 billion investment in TVET to support <i>Making Indonesia 4.0</i> initiatives • Improve effectiveness through industry alignment, internships, work-integrated learning and apprenticeships • Support national priorities such as food and energy security, business and tourism development and maritime development • Increase number of qualified teachers • Strengthen competency-based training and quality assurance through certification and accreditation 	<ul style="list-style-type: none"> • Develop sector as a producer of science and technology and a centre of excellence • Increase both the number of study programs and the number of students and graduates in science and engineering • Increase capacity to invent, innovate and translate applied research for industry in critical fields such as health, pharmaceuticals, digital technology and cybersecurity • US\$280 million investment to develop science technoparks • Increase R&D expenditure through National Innovation Fund, collaboration and alternative funding models • Strengthen science and technology capability in priority areas through increased research consortium cooperation and institutional linkages locally and abroad

Source: Indonesia's National Development Plan 2020–2024

Figure 8.11: Sectoral level opportunities aligned with Making Indonesia 4.0 and IA-CEPA

Sector	Food and agribusiness	Digital transformation	Healthcare
Overview	This sector accounts for 29% of Indonesia's manufacturing GDP and has huge growth potential. Areas of focus are digital technologies for agriculture and farming, for example artificial intelligence and big data.	This involves a range of government initiatives including upgrades to infrastructure, transforming basic services and upgrading digital skills across all sectors including in the context of governance, financing, and research.	Indonesia wants to promote digital technologies in healthcare, in areas such as telemedicine, electronic health records, development of health big data platforms, health services integration and analytics.
Skills required	Artificial intelligence, data analytics, cybersecurity specialist, logistics/supply chain	E-government, E-education, E-health, E-procurement, E-logistics, E-agriculture, E-commerce, smart cities	Artificial intelligence, data analytics, cybersecurity specialist

Subnational level

Provincial development plans are aligned to national goals, with a focus on regional priorities. Subnational opportunities will involve deep and ongoing exchanges with provincial government officials, industry and educational groups. This chapter focuses on two provinces: South Sulawesi and West Java. South Sulawesi provides an example

of a medium-size region with nearly 9 million people, while West Java is the most populous province of Indonesia, with almost 50 million. Both provinces have identified increasing the quality of human resources as among their development priorities. Both examples cover subnational initiatives that relate to *Making Indonesia 4.0*.

Figure 8.12: Subnational initiatives aligned with Making Indonesia 4.0

West Java: Rebana Golden Triangle – new industrial area and town development	South Sulawesi: Makassar-Parepare Railway
<p>Indonesia's key industrial heartland is a corridor from Jakarta to the West Java capital of Bandung. Bandung City is also a centre for the creative economy, and West Java is also home to four of Indonesia's top 10 universities. Developing this critical region will require a suite of skills and training tailored to the needs of individual districts. Areas where skills are needed include:</p> <ul style="list-style-type: none"> • Port City of Patimban – Integrated port-logistics industries • Cipali-West Subang – Food processing industries and dry port • Cipali-East Subang – High-tech agro-industries • Cipali-Indramayu – Chemical and petrochemical industries • Kertajati-Aerocity – Aerospace industries, digital • Tukdana – Oil and gas industry, coal mining industries • Jatiwangi – Aerospace industries, resin and plastic industries, automotive industries • Cirebon – Fish processing industries, furniture and shipyard • Balongan – Material industry, resin and plastic industries • Losarang – Chemical and petrochemical industry, salt processing industries 	<p>The railway is the first stage of a longer term Trans-Sulawesi railway system. The rail transport is linked with the new Makassar Port and development of the industrial zones, commodities and Makassar's Smart Cities ambitions. Areas where skills are needed include:</p> <ul style="list-style-type: none"> • Transport infrastructure <ul style="list-style-type: none"> ▫ Railway management and operations ▫ Port management and operations ▫ Industry development and processing • Logistics and supply chain • Logistics and warehousing • Industry development using value added from hinterland agri-sector commodities

Comparative advantages

Australia's education and training capabilities have comparative advantages in a number of areas related to *Making Indonesia 4.0* priorities.

Figure 8.13 builds on the sectoral snapshot section of the three levels of opportunities – national, sectoral and subnational. It lays out at each level a range of education and training needs required to support *Making Indonesia 4.0*. Even though the table is slanted towards TVET, the broad areas listed are also relevant to higher education.

As mentioned previously, the areas selected align with IA-CEPA and have been mapped against major initiatives, backed by Indonesian government investments. Figure 8.14 maps Australia's capabilities and comparative advantages against the priority areas and skills needs.

In VET, there are eight sectors and 35 VET options relevant to *Making Indonesia 4.0*. The VET options listed are areas covered by Australian RTOs.

Though the list covers VET, the skills needed are also relevant to higher education. In fact, the needs span programs from micro-credentials, certificates and diplomas, to undergraduate, postgraduate and higher degree research training.

In higher education, the Australian Government's Excellence in Research for Australia (ERA) performance measure is useful in mapping Australian capability against *Making Indonesia 4.0* needs – especially in three sectors: food and agribusiness, digital transformation and healthcare. Figure 8.15 shows the number of institutions rated above world standards (rating 4) and well above world standards (rating 5). It indicates the number of Australian institutions and areas where they have a comparative advantage in research, education and training. The figure also shows a list of current programs (joint degrees/double degrees/licensing) delivered by Australian institutions through partnership arrangements. The number of arrangements are programs registered formally with the Indonesian Government. It is, however, not clear how many of these programs are active and productive.

Figure 8.13: Overview of selected education and training mapped to Making Indonesia 4.0

Levels	Priorities	Needs
National	VET revitalisation for Making Indonesia 4.0	<ul style="list-style-type: none"> • Industry responsive programs • Train the Trainer • VET Teacher Training – Pre-service programs • Improving accreditation and quality assurance processes • Aligning occupational standards in services • Internationalisation through partnerships, mobility and programs (including joint-programs)
Sectoral	Food and agribusiness	<ul style="list-style-type: none"> • Logistics & supply chain (E-logistics, E-procurement) • Food processing • Food innovation
	Digital transformation	<ul style="list-style-type: none"> • Big Data • Artificial Intelligence • E-Government • Cybersecurity • Ecommerce • Smart Cities • Digital Learning (EdTech) • Digital Literacy • Digital Vocational Training • Digital Capability building – design, online teaching and learning practices
	Healthcare	<ul style="list-style-type: none"> • Telemedicine • Big Data
Subnational	West Java – Rebana Golden Triangle	<ul style="list-style-type: none"> • Logistics and supply chain • Intermodal transport system
	South Sulawesi – Makassar-Railway line	<ul style="list-style-type: none"> • Railway operations • Port management • Airport management • Enterprise development • Manufacturing • Food processing • Food innovation

Source: National Development Plan 2020–2024, Sectoral Road Maps and Regional Development Plans

Figure 8.14: Overview of Australia's VET capability mapped against Making Indonesia 4.0 priorities

	Areas	Sub-areas
Making Indonesia 4.0	Agriculture	Aquaculture Agriculture, forestry and fishing support services Food product manufacturing Beverage manufacturing
	Business, education & training	Business services Financial services Education and training
	Design	Computer system design Engineering design Specialised design – eg. digital media designer, industrial designer, games designer, graphic designer
	Government, safety and environment	Public administration Public order and safety Local government administration
	Health and community services	Medical care services Residential care services Social assistance services – eg. aged and disability carer, child care worker
	Manufacturing and engineering	Manufacturing (trades) Manufacturing (operations) Manufacturing (management)
	Transport	Management and logistics Road transport Rail transport Warehousing, support and operations Water transport Air and space transport Automotive repair and maintenance
	Science and technology	Animal care Laboratory technology Information technology Telecommunications technology Cybersecurity Online data analytics
	Tourism and hospitality	Tourism Hospitality

Source: Assessment based on the Australian Government's MySkills website - www.myskills.gov.au. The site provides useful information on current jobs in demand, courses and VET providers. This list maps the broad skills in demand against priorities identified in Making Indonesia 4.0

Figure 8.15: Australia's Excellence in Research across three sectoral priorities – Food and agribusiness, digital transformation and healthcare

Indonesian priority area of need across the health, food and agriculture, and digital transformation sectors	Australian institutions with competitive advantage (rated above or well above world standards) (2019)	Number of Australian institutions with double/dual degree arrangements with Indonesia's top 10 private and public universities (2017)
Education: education systems, curriculum and pedagogy	15	1
Engineering and information technology	26	23
Policy and administration	6	0
Artificial intelligence	18	0
Public health, health services and nursing	19	9
Nursing	28	9
Agriculture, land and farm management	7	0
Commerce, management and tourism	9	30
Fisheries sciences	7	0
Food science	7	0

Source: ERA National Report, 2018, State of Australian University Research 2018–19, Australian Research Council, Canberra – <https://dataportal.arc.gov.au/ERA/NationalReport/2018/>; and Australia Indonesia Centre, 2019, Stronger education partnerships

How to enter the sector

There are three options for international providers looking to establish a presence in Indonesia: strategic partnerships, joint ventures/ownership and consortia. Each is supported through IA-CEPA, and each comes with its own risks and opportunities. Looking into the future, the consortia model might have the greatest upside for both Indonesia and Australia.

1. Strategic partnership

Strategic partnerships are a medium risk model where international providers partner with local organisations, either under a licensing model or to deliver joint programs. They are the most common way Australian providers engage with Indonesia. Even in a pandemic context, granting the right to deliver programs in-country may bear significant overheads (e.g. employing staff, providing facilities, recruitment, marketing and handling regulatory matters). The common risks include the use of brand and quality program delivery.

Licensing arrangements involve an international institution entering a contract to allow a local partner – usually a private, for-profit company

– to deliver its program in-country. The local partner bears the significant overheads (e.g. employing staff, providing facilities, recruitment and marketing) and handles regulatory matters. Licensing has risks. Quality may be compromised if the local partner does not deliver the program to the licensor's standards; reputation control may be a concern in recruitment and marketing.

The joint degree is another common arrangement. An institution partners with a local education institution and leverages their academic programs, teaching facilities and supported services to deliver their degrees in-country. Degrees are awarded by both institutions and are particularly attractive to students because they are affordable and offer the chance to gain an internationally recognised qualification without having to go abroad.

There are a number of institutions actively forging ahead under IA-CEPA. In April 2020, the Central Queensland University (CQU) opened its Executive Business Training Centre in Jakarta. The initiative is a partnership with Bakrie University and part of CQU's plan to establish a full presence. CQU will commence delivery of corporate training programs

focusing on business, law, governance and business ethics and ELICOS (English Language). It will also offer a dual Master of Management and MBA program with Bakrie University. There are plans to expand outside of Java.

Melbourne Polytechnic is another example of one of several Australian VET institutions that is delivering training in conjunction with Indonesian partners. In 2018, Melbourne Polytechnic and Enter Audio House, an engineering training institute in Bandung, West Java, signed an agreement to deliver a certificate and a diploma in Advanced Audio Engineering. The program is delivered using a blended online learning model.

2. Joint venture/ownership

This involves creating an in-country entity either partially or wholly owned by a foreign education provider and is the highest risk model. The overseas provider grants the credential and provides its entire academic program in-country.

While legislative changes mean foreign universities can open stand-alone campuses in Indonesia, no institution has yet done so. Monash University, however, will be the first foreign university to establish a campus in Jakarta. In November 2020, the Ministry of Education and Culture granted Monash licence to operate. Through a foundation – Yayasan Monash University Indonesia, known as Monash Indonesia – it will offer master and PhD degrees, as well as executive programs and micro-credentials. The postgraduate campus will be located in Bumi Serpong Damai (BSD) in southwest Jakarta. Monash plans to accept its first enrolments in 2021.

There are currently no Australian VET providers with a stand-alone campus, but some are considering greater Indonesia engagement in terms of a campus or training facility. VET providers are allowed up to 67% foreign equity ownership.

3. Consortia

This is a medium-risk, larger scale approach where education and training players – VET, universities, federal and state governments – work together to deliver integrated solutions to Indonesia's human capital challenge.

Consortia can address sectoral, cross-sectoral or subnational needs and lower the potential risks through sharing financial and resource burden. The model brings curriculum and delivery experience customised to local needs, and works with industry stakeholders in course design and specific practical job outcomes. Local providers can be involved.

Consortia can also offer an extensive range of activities, ranging from micro-credentials and non-award short courses, to certificates, diplomas, and undergraduate and postgraduate degree programs. Austrade has developed a toolkit to provide a step-by-step guide for providers to support the use of consortia models.

Consortia models are newer models of engagement and in Australia there are some promising examples. For instance, the state-based Victorian TAFE Mining, Oil and Gas Consortium involving five institutions have delivered short courses in occupational health and safety for the gas sector in East Indonesia. Outside Australia, the United Kingdom's Oxford Partnership is another consortia model of engagement in which education and training providers worked with the Kingdom of Saudi Arabia to establish four women's colleges. Figure 8.16 provides an example of a potential cybersecurity consortia that could be developed for Indonesia.

Focus on CONSORTIA MODELS

Austrade, in its [2018 report](#) on consortia opportunities and pathways for education and training providers, identified three common business models.⁶⁰

1. **Industry-focused consortia:** Education and training providers and industry players work together to bring specific expertise to deliver a holistic skills solution for a particular industry.
2. **Edtech-education provider consortia:** Education technology (edtech) companies, education and training providers, and potentially industry players all work together to deliver technology-enabled solutions. This model is typically used for corporate, industry or professional training courses delivered online.
3. **State and territory government support consortia:** For providers located in a state or territory. The state or territory government may provide business development support to identify opportunities, bring suitable parties together, and potentially allocate funding to support joint marketing and promotion. The government support also brings credence to the consortium, especially in Indonesia, where the imprimatur of government is important.

4. Government support

There are three ways the Australian Government can support education and training providers venturing into Indonesia:

- **Government-to-government:** Continue to support Australian education and training providers that want to expand engagement with Indonesia, and assist Indonesia shape policy settings that reduce regulatory barriers and open opportunities for these providers. The Australian Government shaped the development and introduction of the Indonesian Government's Ministerial Regulation 53 of 2018, resulting in Monash University becoming the first foreign university to establish a campus in Indonesia.
- **Government-to-industry:** Increase support for Australian providers through regular market insights and promotions, and use the new IA-CEPA Economic Cooperation Program to:
 - provide regular insights to improve knowledge and understanding of commercial education and training opportunities. This would involve, for example: working with Indonesian governments – at national and subnational levels – to help develop a prioritisation framework for their skills needs; undertaking a market feasibility study that identified Indonesia's education and training requirements, opportunities, barriers, gaps and best practices; develop and implement a program of regular market insights; and networking in targeted industries
 - increase branding and promotion of Australia's capabilities in VET; Industry 4.0 specific sectors; and research and development strengths
 - focus support on network creation and relationship development. For instance, assist strengthening ties and establish links and partnerships in key sectors; connect with Indonesian industry bodies to develop an understanding of market requirements; establish commercial and sector relationships through trade activities, facilitating collaboration and partnership, building government-to-government relations; and leverage influential alumni and existing networks.

- **Government-to-consortia:** Support existing consortia. Lead new, small-scale, targeted consortia that focus on sectoral or subnational human capital challenges. There are also opportunities to extend current Australia-focused consortia models to include bilateral consortia models – similar to the Australia-Indonesia Centre consortium.

Indonesia now presents a compelling opportunity to explore small to large scale, cooperative delivery models for the Australian education sector. As we have seen, Indonesia plans a sweeping upskilling of its workforce; a dedicated consortium providing a “one-stop-shop” solution to its human capital needs could deliver enormous benefits to both countries.

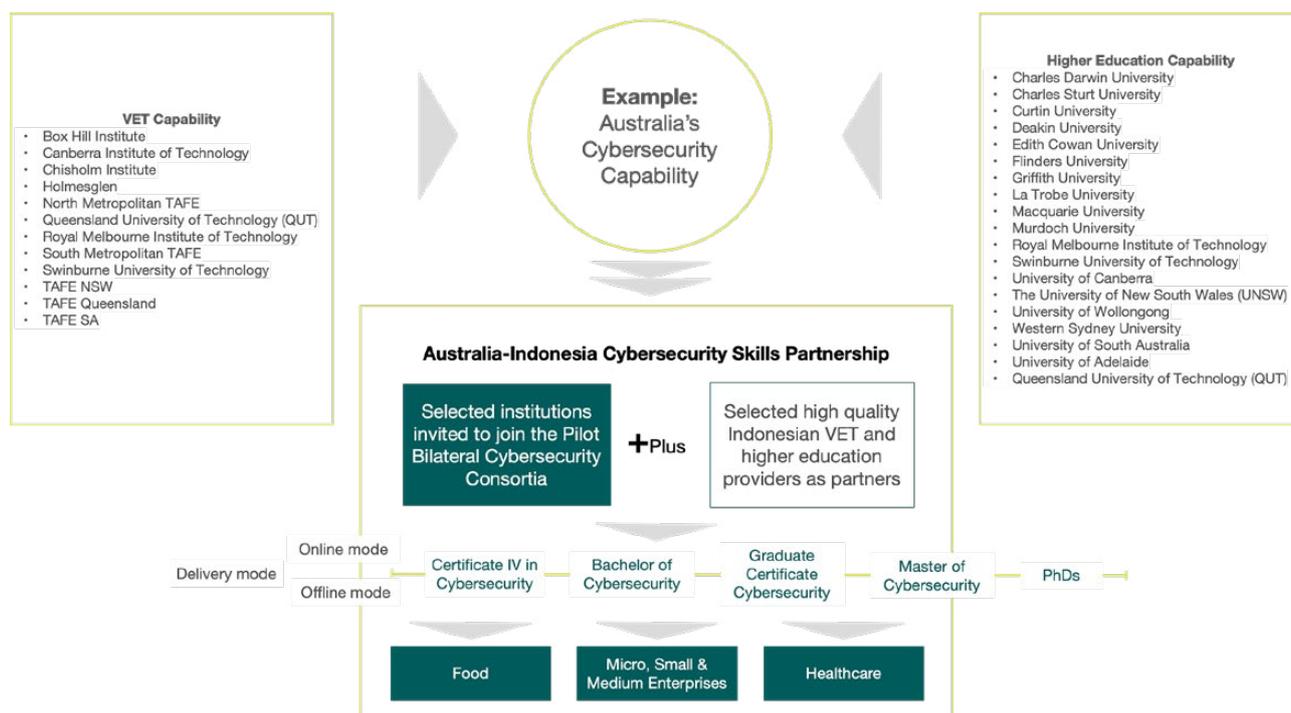
A bilateral pilot consortium is a potential model that would offer an integrated solution to *Making Indonesia 4.0's* skills needs. It would include a selected group of VET and higher education providers, industry and edtech companies, and would ideally be supported nationally.

Such a consortium could provide complementary solutions and pursue large-scale sectoral or subnational projects. It would partner with selected high-quality local providers, and work with industry, particularly micro, small and medium enterprises, to design courses and practical job outcomes. Joint curriculum would range from micro-credentials and short courses to certificates and postgraduate degrees.

It would be led by an organisation that would support collaboration, build connections and lead business development activities. Key functions of the lead organisation would include identifying opportunities and creating business cases, connecting with national and regional governments, building networks with industry, providing quality assurance and identifying high-quality partners to help with match-making and mitigate risk.

Figure 8.16 shows a schematic example of an Australia-Indonesia Cybersecurity Skills Partnership.

Figure 8.16: An example of a bilateral cybersecurity consortia formed to provide end-to-end education and training solutions (from micro-credentials to certificates to PhDs, delivered online and/or offline) and targeting priority sectors



Challenges, constraints and risks

While Indonesia's regulatory and business environment may be complex, it is by no means prohibitive. Even without IA-CEPA, there are already a number of Australian education and training providers actively pursuing opportunities. Some are succeeding, some are at an early stage of business development and some are revitalising their Indonesia strategy after seeing the rapid changes taking place in the country. IA-CEPA offers Australian providers more certainty and opens new opportunities.

Here are some challenges and risks to consider when planning to engage in Indonesia:

- **Entry points:** There are various models to consider. Working directly with a Ministry or industry to deliver tailored training usually suits those seeking to establish a quasi-presence in Indonesia (i.e. not a formal legal identity) through contractual partnerships with local institutions. The Indonesian partner is usually responsible for registration, as well as providing premises, teachers and student clientele. The Australian partner provides the expertise, curriculum and quality control. Commercial and regulatory realities in Indonesia mean most foreign institutions find this arrangement preferable, even though they are left, somewhat exposed, to the decisions of the local partner, and not enjoying the rights (e.g. recourse to litigation) they would have if they were a wholly owned entity.
- **Reputation risk:** Poor program delivery can damage a foreign institution's brand and image. For example, risks involved in joint degrees include: failure to attract a sufficient number of students at the affordable price; poor delivery of the foreign institution's curriculum; and poor facilities and services such as technology, library resources or academic support.
- **Fragmented ministerial responsibilities:** This is the case in TVET where the Dikbudristek manages school level SMKs, the Ministry of Manpower manages the network of Workers Training Centres (BLKs) and other ministries manage institutions focused on skills developments for workers in their economic sector. At the same time subnational authorities also have implementation responsibilities for SMKs at provincial level and BLKs mostly at city and district level.
- **Fields of study:** Program accreditation: depending on the model of delivery, programs offered as part of partnership arrangements may not meet the accreditation requirements.

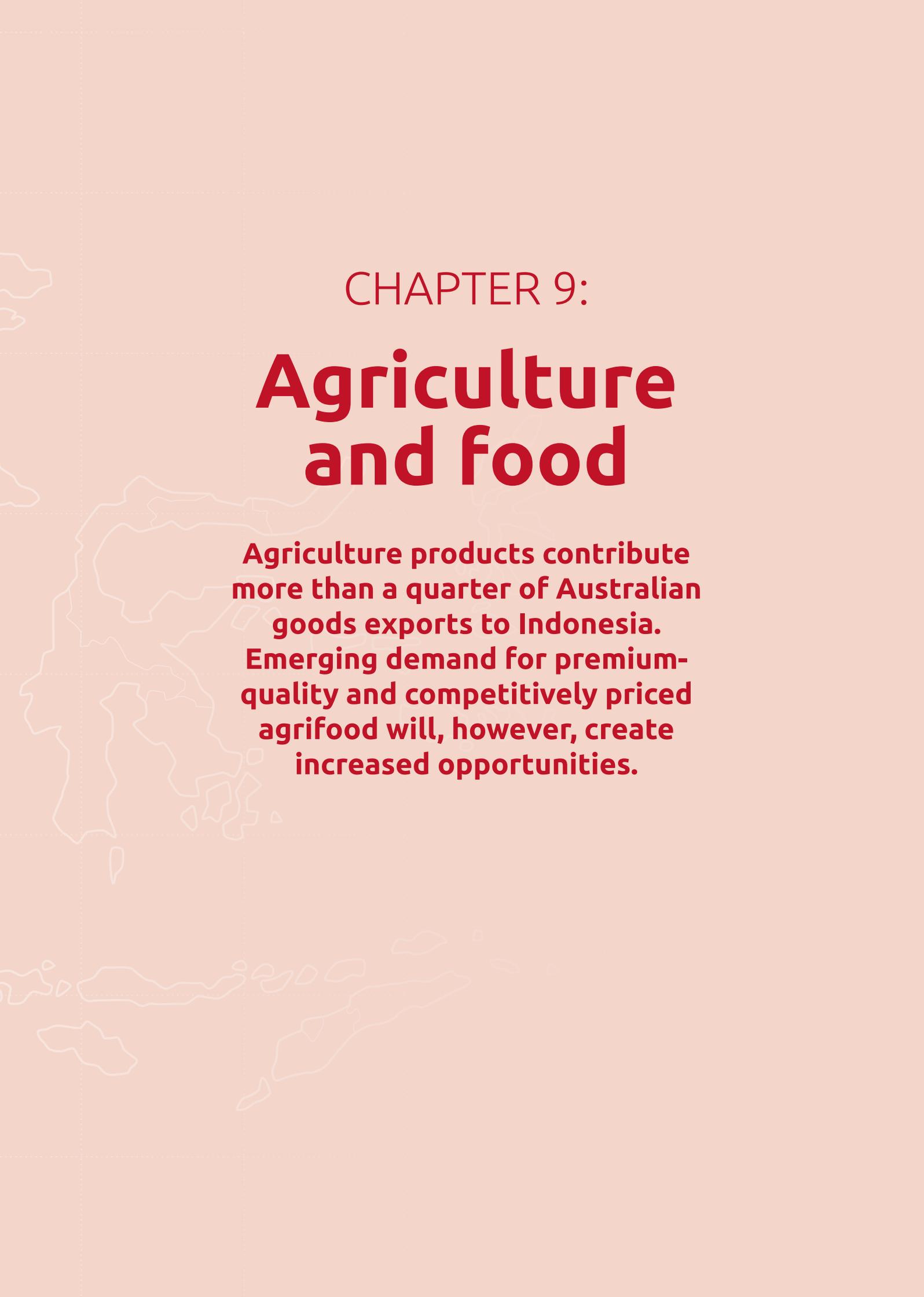


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- **Employment regulations:** Foreign worker employment rules affect all sectors. Restrictions on recruiting and employing foreign labour is raised consistently as the biggest regulatory hurdle to deepening engagement. Around the middle of this decade a stricter interpretation of rules around foreign workers resulted in a sharp drop in the number of work permits issued, although the situation has eased slightly in the past year. The Job Creation Law provides some favourable reforms to the mechanisms for recruiting foreign labour, but the full impact will need to await the enactment of relevant implementing regulations.

- **Foreign workers:** Australian staff to be employed in Indonesia must be suitably qualified and be able to demonstrate how skills transfer will occur with their Indonesian colleagues. There are additional requirements around the hiring of foreign teachers and language teachers.

A handful of Australian institutions have been doing well in Indonesia for some time, and in each case the key to success was long-term commitment, a strong local partner and a willingness to forge deep connections in the country. It is hard to overemphasise the importance of viewing Indonesia as a long-term game, and a preparedness to demonstrate commitment to the market.



CHAPTER 9:

Agriculture and food

Agriculture products contribute more than a quarter of Australian goods exports to Indonesia. Emerging demand for premium-quality and competitively priced agrifood will, however, create increased opportunities.

Agriculture and food

Key points

- **The pandemic has drawn attention to food security in Indonesia providing a new reason why Australia's geographic proximity and clean and green reputation should make Australian products attractive to Indonesian consumers.**
- **More than 99% of Australian agriculture products will enter Indonesia duty free or under improved preferential trade rules due to IA-CEPA.**
- **Rising urbanisation is expanding modern retail and foodservice outlets giving consumers greater choice and more diverse fresh food options.**
- **While wet markets still dominate the food retail sector, there is rising demand for pre-packaged, ready-to-eat and deliverable food products, especially those marketed and ordered online.**
- **Long-term planning is needed by exporters to meet all the registration requirements of the many ministries prior to export and some of this can only be done via a local distributor/importer.**

New consumers are changing a big food market

As one of the world's foremost producers of safe, high-quality and nutritional foods, Australia has a well-established reputation in Indonesia. Agricultural exports now comprise more than a quarter of all Australian goods exports to the country.

The diversity of this trade ranges from live cattle for fattening and processing in Indonesia, to wheat which the country manufactures into noodles, bakery items and pasta that is exported to many countries, including Australia. Packaged food and beverages, such as wine, meat and dairy products, are also used in hotels and restaurants in Indonesia's expanding foodservice sector.

Indonesia is Australia's sixth largest agriculture, fisheries and forestry export market valued at \$1.9 billion in 2020 with exports predicted to

steadily increase.⁶¹ Overall, the sector has proved to be relatively resilient to the impact of COVID-19 in comparison to other industries, although demand has dropped for some higher price commodities due to the economic slowdown, however the Indonesian economy is expected to recover throughout 2021.

Notwithstanding projected economic recovery, the pandemic has brought food security into sharp focus for the Government of Indonesia. Australia's proximity combined with its established reputation as a provider of "clean and green" products provides a compelling reason for Indonesia to look to Australia to help diversify and secure its supply chains.

Indonesia's longer term economic growth will create increased opportunities for Australian



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businesses to help meet local consumers growing demand for premium-quality, competitively priced agrifood products.

While exporting agriculture products into Indonesia is not without its challenges, there are rewards for Australian exporters willing to invest the time and resources into the market. For example, the [Manildra Group](#),⁶² a NSW-based wheat-processing and grain-distilling company, as well as cherry grower [Reid Fruits](#) in Tasmania are already seeing the benefits of exporting to Indonesia.⁶³

With more than 99% of Australian agricultural goods able to enter Indonesia duty free or under improved preferential arrangements through IA-CEPA, now is the time for Australian businesses to look at Indonesia and the opportunity that it offers.

IA-CEPA includes improved tariffs and preferential arrangements for a range of commodities including for live cattle, frozen beef, sheep and goat meat, dairy, horticulture, honey, nuts, and feed grains.

This is important given that by 2050 per person consumption of commodities such as wheat, beef and sugar in Indonesia is predicted to be greater than China.⁶⁴

Key opportunities

Meat and livestock

- Frozen and boxed beef
- Dairy breeder cattle
- Other meat such as offal, sheep meat, goat, and buffalo

Dairy

- Dairy products and ingredients for manufacturing
- Dairy products with specific health-related benefits, including value-added dairy products

Grains

- Wheat for milling
- Feed grains (wheat, barley, sorghum)

Horticulture

- Fruit: citrus, cherries, berries, stone fruits, apple, pear, avocado
- Vegetables: carrots, broccoli, brussel sprouts, beetroot

Packaged food and beverages

- Minimally processed products
- Staple foods and cooking ingredients
- Ingredients for manufactured food and snacks
- Food and beverages for the foodservice sector

The trends to watch

Key trends driving growth in Indonesia make it an attractive market for Australian exporters looking to expand their international operations.

Here are some reasons why agrifood businesses should consider Indonesia as an export market for their products:

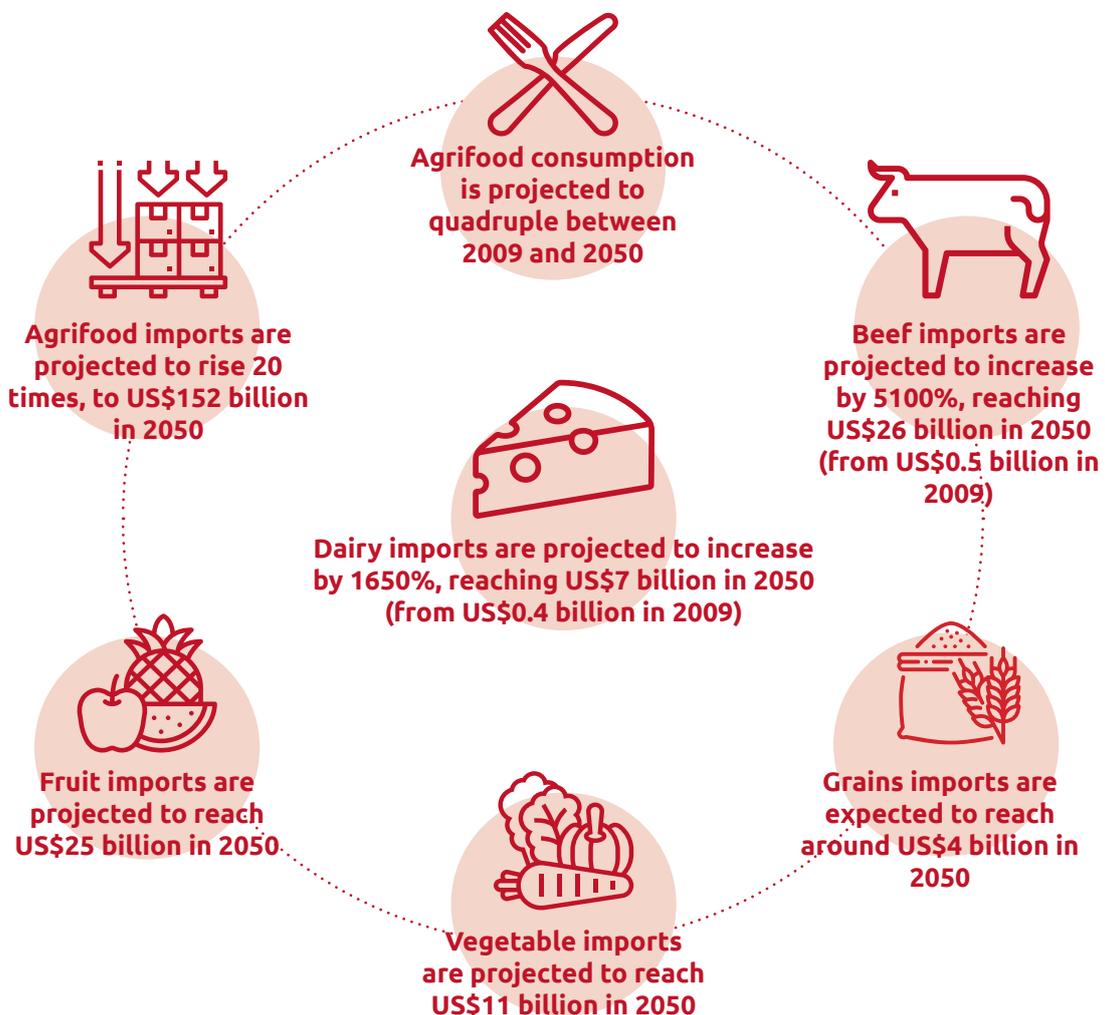




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Growing population, middle class and urbanisation

Indonesia's growing appetite for premium, healthy and safe food products, particularly in the large cities such as Jakarta, Surabaya, Bandung and Medan and major tourist destinations like Bali, offers a growing consumer market for Australian exporters and manufacturers to tap into. An increasing population, rising middle class and urbanisation are key contributing factors to this growth.

Consumer spending on food and beverage products in Indonesia is expected to increase as this middle class and their income levels grow.

Urbanisation is also accelerating the expansion of both the modern retail and the foodservice sector, as well as giving consumers access to a wider range of products.

Expanding the modern retail sector

Traditional retailers including wet markets and independent small grocers still dominate the mass market in agrifood products. However, Indonesia's retail landscape is changing, with modern retail channels developing such as supermarkets, hypermarkets and convenience stores. In 2019, convenience stores continued to record sales growth of 7%, followed by supermarkets at 5% year on year. Drivers of this growth include wider product availability and perceptions around superior product quality.

Given the high quality and price of Australian agrifood products, these exports are well suited to modern retail channels. Currently, most Australian export products are sold in supermarket and hypermarket chains in Jakarta, including Ranch Market, Gran Lucky, Food Hall, Aeon, Lotte, Transmart and Carrefour.



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The further expansion of modern retail to cities such as Surabaya (the capital of the East Java province), Bandung (capital of the West Java province), and Semarang (the capital of Central Java province) presents potential growth for Australian exports beyond the greater Jakarta region.

In addition to supermarkets and hypermarkets, Indonesia has seen enormous growth in convenience stores, albeit from a low base, as Indonesians increasingly choose foods that are suited to their busy lifestyles. According to the Food and Beverage Export Guide to Indonesia released by the Australian Food and Grocery Council in September 2020, convenience stores could potentially provide an additional channel for Australian exporters looking to introduce their food and beverage products to Indonesian markets. Australian exporters are encouraged to explore this channel by working through local and trusted distribution partners.

Modernising the foodservice sector and consumer trends

The foodservice channel in Indonesia is diverse, ranging from high-end international restaurants to local family-owned kiosks and street vendors. Full-service restaurants make up most of the foodservice sector, mainly comprising Asian restaurants.

The foodservice market is modernising, supported by the continued expansion of shopping malls, modern retail outlets, and hotels, combined with preferences towards trendy, modern and international dining experiences amongst young consumers.

Future growth will create opportunities for Australian agrifood products and beverages – such as beef, dairy, and packaged foods – supplied to the evolving foodservice channel, particularly in well-known tourist locations such as Bali. Over the longer

term, Indonesia's tourism market may diversify and expand, creating demand for imports in other locations outside of Bali such as Lombok, Yogyakarta and Kalimantan.

Increasing demand for packaged foods, foreign flavours, and healthy options

Indonesian consumers are increasingly demanding packaged food and foreign flavours, as well as options for the increasingly health-conscious consumers. A long-term opportunity exists for Australian businesses to meet this demand by supplying new flavours, innovative, and high-quality trusted food products and ingredients. The opportunity to supply halal foods in Indonesia is also growing as these products are increasingly becoming the number one factor for retailers to take on new brands.

With a large population of time-poor office workers living in major cities, these consumers have less time for cooking and are seeking quick, healthy and high-quality options. Ready-meal sales are increasing, with frozen meals registering the highest retail growth rate in 2019 within the category. Likewise, snacks are also growing in demand, with nearly 50% of Indonesians often snacking during the day. Supplying ingredients for meals and snacks to meet this demand is a potential opportunity for Australian exporters.

With around 175 million internet users and a relatively young population, there is rising awareness of foreign foods. Indonesians are increasingly willing to try new products, including fusion flavours. In the foodservice channel, innovation based on menu variation, new ingredients and foreign cuisines will continue to be a determining factor of success. Furthermore, the ability to cater to younger consumers is becoming more important as these consumers follow international trends closely and are shaping demand for new cuisines and menus.



In line with global trends, Indonesia's consumers are becoming more health conscious. This trend is particularly [pronounced in major cities](#) such as Jakarta, Makassar, Medan, and Surabaya where consumers are willing to pay for healthier choices even if they come at a higher price tag.⁶⁵

The outbreak of COVID-19 has heightened this interest in healthy food and beverages. Consumers are choosing unprocessed or minimally processed foods, creating opportunities for Australian exports of fresh food, organic foods, dairy products, and ingredients.

Rapidly growing ecommerce and digital promotion

Cross-border ecommerce is not common in Indonesia, particularly in the food and beverage sector. However, it is the fastest growing retail channel for packaged food in Indonesia, growing by 47.5% year on year reaching a total value of \$124 million in 2019, albeit from a low base.

The pandemic accelerated this shift with 49% growth in consumers [purchasing food and groceries online](#)⁶⁶ during the pandemic. Meanwhile leading ecommerce platform [Tokopedia](#) saw its food and beverage sales grow around 500% during the pandemic.

Gojek and Grab are amongst the leading players for last mile logistics, providing home-delivery services, offering consumers a wider range of food choices, convenience and low-cost delivery options. These platforms already had a strong online presence, and since the advent of COVID-19 this expanded to cover more retailers and products, with growth in grocery, fresh and ready-to-eat products.

The emergence of digital communications in recent years has further diversified the food and beverages industry. Indonesian consumers are amongst the highest users of social media in the world, and food and beverage products benefit from digital promotion platforms such as Instagram and YouTube.

According to an online survey, 73% of food shoppers aged 18–34 in Indonesia say they have made a purchase after seeing a creator or celebrity consume or prepare a food product on social media. More than a third of soft drink consumers surveyed reported that [creators helped them](#) discover new products.⁶⁷

Many companies are successfully engaging with influencers to take advantage of trends in the market. A recent example saw a 500% growth in the sales of celery, following a video blog (vlog) of an Indonesian public figure who embarked on a weeklong #celeryjuice challenge following a world trend initiated by American health practitioner, Anthony William. The vlog highlighted the health benefits of celery and created a significant increase in consumption.

Australian exporters should be looking to social media platforms as a cost effective and targeted marketing channel in the Indonesian market, taking advantage of the growing, tech-savvy population. Exporters should also consider using ecommerce as an alternative channel to market over traditional retail options, particularly for packaged foods.

Improving infrastructure

The dispersal of Indonesia's population across approximately 6,000 islands, along with poor infrastructure can often make distribution challenging.

Cold chain storage is continuing to evolve and there is a well-established network covering the larger cities such as Jakarta, Bali, Surabaya and Bandung, operated by a handful of major companies.

Australian businesses planning to export temperature-sensitive products should carefully consider cold storage providers and distribution capabilities as part of any export strategy.

According to the [Indonesia Logistics and Forwarders' Association](#), the cold chain market is expected to grow 8 to 10% over the next 5 years.⁶⁸ Frozen beef, dairy products, and frozen processed fruit and vegetables will benefit the most from these developments in cold storage.

Delivery times from major distributors and sub-distributors to modern retailers are also improving.



Cross-cutting issues

Government policy

While there are many compelling reasons for Australian business to look to Indonesia, it is helpful to also understand the Government of Indonesia's position on imported agricultural products.

Agriculture accounts for around 28% of total employment and contributes around 13% to the country's GDP, according to the [World Bank](#).⁶⁹ It is [estimated](#) that more than 90% of farmers are smallholders, totalling around 30 million.⁷⁰ Agriculture is therefore very important to the Government of Indonesia and the Indonesian population and heavily influences the government's agricultural policies, with a focus on self-sufficiency and protecting local industries and producers. As at publication, the Government of Indonesia is focused on maize, rice and soybeans.

At times, bureaucratic processes have led to delays in obtaining import permits. While some Australian agrifood exports, such as frozen beef, are performing well, other commodities, such as horticulture have experienced challenges.

In early 2020, there was some disruptions to horticulture trade with Indonesia. Delays in processing the necessary import permits required by fruit and vegetable importers led to a halt in [table grape exports](#) in January and February, with grape exports valued at \$7.38 million over the same period in 2019.⁷¹ The delays affected a range of countries, including Australia.

Although the Government of Indonesia is focused on ensuring self-sufficiency, at the same time it is trying to stabilise prices for both consumers and producers. This continued emphasis on self-sufficiency tends to come [at high economic and social costs](#), such as higher food prices.⁷²



Image credit: Shutterstock

Impact of COVID-19

The overall impact of the initial pandemic on Australian agrifood exports to Indonesia has been mixed. The supply chain remained relatively unaffected, but demand for some Australian products dropped due to the slowdown in economic activity, particularly from the tourism sector. As Australia's agricultural exports are a mixture of staple and discretionary high-value products, some products were [more affected](#) than others.⁷³

Although the bulk of the agrifood trade has continued, the broad scale of job losses and business restrictions is having a negative impact on imports of Australian food products. Demand for high-value food is likely to remain slow with the fall in household incomes, as well as restrictions on the movement of people that is impacting the hospitality sector, an important distribution channel for imported food and beverages.

While exports remained firm or even increased for some commodities such as wheat and skim milk powder, exports of other commodities including fruit, butter, cheese and live cattle [fell in the first quarter](#) of 2020 compared to the same period in the previous year.⁷⁴

In the short term, Australian suppliers of food and beverages for the foodservice sector may need to consider alternative segments of the market to sell into such as supermarkets. While the agrifood sector is expected to recover in the longer term, this recovery is likely to be slow and uneven.

Overall, there is reason to be optimistic. The food and beverage sector in Indonesia has demonstrated to be a [relatively resilient](#) area of its economy with growth recorded for the first half of 2020.⁷⁵ Likewise, the short-to-medium-term [outlook for Australia's top 10 agricultural markets](#) – including Indonesia – remains favourable.⁷⁶

Opportunities

Meat and livestock

Indonesia became a billion-dollar beef and cattle export market for Australia for the first time in 2018–19 and there is [potential for further growth](#).⁷⁷

It is one of the largest beef markets in Asia and beef is perceived to be the most [superior source](#) of protein.⁷⁸ Over the 20 years to 2018, per [person meat consumption](#) grew strongly by 89%, compared to 13% in Australia.⁷⁹ Rising incomes and changing diets are a major driver of [expanding consumption](#).⁸⁰ Demand for beef is generally high in big cities and urban areas.

Despite an increasingly competitive landscape, Australia has maintained a strong position as a leading and trusted supplier to the Indonesian market, with Australian boxed beef and live cattle exports contributing around 45% of Indonesia's total beef consumption.⁸¹ Australian beef is [consumed mostly](#) in greater Jakarta.⁸²

Australia's comparative advantage in meeting Indonesia's increasing demand for fresh, safe and locally produced beef will continue to create opportunities for Australian live cattle, frozen, and boxed beef exports. Furthermore, IA-CEPA will help boost Australia's beef and live cattle exports, paving the way for more trade certainty for live cattle exports and elimination of tariffs for a range of products. Market access outcomes benefit both Australia and Indonesia, as well as support Indonesia's efforts to add value to its own beef production.

Live male feeder cattle:

- Elimination of the 5% tariff for 575,000 cattle in 2020
- 4% annual growth in volume reaching 700,000 by 2025
- Review for subsequent increases

Live breeder (female cattle):

- Elimination of the 5% tariff with unlimited and tariff-free access

Frozen beef:

- Tariff on frozen beef cuts with bone in reduced to 2.5% and eliminated by 2030
- Tariffs on all other frozen beef eliminated

Sheep and goat meat:

- Tariff on frozen sheep meat reduced to 2.5% and eliminated by 2023
- Tariff on fresh, chilled or frozen goat meat reduced to 2.5% and eliminated by 2023

Dairy

Indonesia is Australia's [3rd largest dairy export market](#) valued at more than \$228 million in 2020, ranking behind only China and Japan in value terms.⁸³ As a growing importer of dairy products, an opportunity exists for Australia to increase its dairy export volume and market share.

Indonesia ranks sixth globally by volume of dairy imports.⁸⁴ The growing middle class is leading the charge in demand for dairy as these products are considered to provide an easy and convenient way to stay healthy.

IA-CEPA will add to the already strong relationship between Australian exporters and Indonesian importers of dairy products.

Building upon AANZFTA, all tariffs on Australian dairy exports will eventually be eliminated under IA-CEPA. This will provide an estimated saving of more than \$10.5 million based on the average value of Australian dairy exports to Indonesia over recent years, according to Dairy Australia. This will give Australian dairy an advantage over major dairy competitors in the Indonesian market.

Tariffs on skim and whole milk powders and grated and powdered cheese were removed upon entry into force of IA-CEPA, with the remaining tariffs to be eliminated over time, including for:

- concentrated or sweetened milk and cream
- milk and cream, other than in liquid form (not concentrated nor containing added sugar or other sweetening matter) by 2026
- liquid milk and cream (not concentrated or containing added sugar or other sweeteners) by 2033.

Horticulture

Indonesia is Australia's fourth most valuable market for fruit exports, valued at around \$73 million in 2020. For [vegetables](#), Australian exports to Indonesia were valued at a more modest \$7 million.⁸⁵

Indonesia's consumption of fresh fruit and vegetables is growing, reflecting proportionate growth in the middle class. Consumers are increasingly recognising the health benefits of fresh

produce, particularly among upper-middle-class consumers in urban areas, who are seeking higher quality produce and more variety.

Australia's most valuable fruit export to Indonesia is table grapes and its fastest growing export is avocados, followed by strawberries and stone fruit. Potatoes make up the majority of Australia's vegetable exports.

There are also opportunities for Australian businesses exporting fruit such as summer fruits and citrus. There may be growing opportunities to export apples and pears as they are readily purchased by Indonesian consumers as an exotic fruit that cannot be grown in-country. In particular, demand for apples is [projected to increase](#) by 55% by 2025, with the majority of this demand to be met by imports.⁸⁶

Vegetables such as brussel sprouts and carrots are also seeing increased demand.

IA-CEPA provides a number of benefits to Australian horticulture exporters:

Fruit:

- 25% tariff on mandarins cut to 10% for 7,500 tonnes per year, with progressive tariff reductions down to 0% for mandarins after 20 years
- Tariff-free access for 10,000 tonnes of oranges, increasing by 5% per year
- Tariff-free access for 5000 tonnes of lemons and limes, increasing by 2.5% each year
- Elimination of tariffs on pineapples, avocados and strawberries in 2026
- 20% tariff on mangoes reduced to 12.5% in 2025
- 5% tariff on dragon fruit reduced to 2% in 2026
- Elimination of a range of other tariffs including on bananas, persimmons, and a variety of tropical fruit.

Vegetables:

- Tariff on potatoes (excluding granola, median, nadia and blis) cut to 10% for 10,000 tonnes per year, then further reduced after 5 years to 5% for 12,500 tonnes per year, increasing by 2.5% per year
- Tariff on carrots cut to 10% for 5,000 tonnes per year, with progressive tariff reductions down to 0% for all carrots after 15 years
- Elimination of tariffs from implementation or by 2026 for most other vegetables.



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Grains

Wheat:

Indonesia is dependent on wheat imports as the grain cannot be grown locally in great volumes. Imports are likely to continue to grow due to the combined impact of rising incomes and the growing population.

As urbanisation continues, consumers are moving away from rural areas where rice is grown locally and can be bought cheaply to cities where more varied diets are the norm. In Indonesia, this has led to widespread consumption of wheat-based instant noodles and the country has become the world's largest consumer of instant noodles.

Australia can take advantage of this growth as the functionality of Australian wheat is well suited to instant noodles. Currently about 70% of the volume of Australian wheat exports to Indonesia is being used to make noodles.

As wealth grows, consumers are incorporating more bread, pastries and sweet products into their everyday lives. The remaining 30% (in volume) of Australian wheat exported to Indonesia [is being used](#) in the baking sector.⁸⁷

Over the next decade, there is no market segment anywhere else in Indonesia, or even further afield in neighbouring Asian markets, that offers the same opportunity as [Indonesia's bread and baked goods market](#).⁸⁸

Feed grains:

In addition to milling wheat, [future demand is expected](#) for feed grains. Indonesia is utilising over 20 million tonnes of feed grain per annum, with the poultry industry accounting for 87% of use.⁸⁹

Under IA-CEPA, Australia gained access for feed grains, to complement the strong trade in grains for human consumption:

- access for 500,000 tonnes of feed grains (wheat, sorghum and barley) each year, increasing at 5% per annum
- elimination of outstanding tariffs not eliminated under AANZFTA on most remaining cereals and grains
- elimination of the 5% tariff on rolled oats
- elimination of 5% tariff on unroasted malt.

Sugar

The [Australian sugar industry](#) produces around 4 million tonnes of raw sugar annually of which 85% is exported to countries including Indonesia where it is refined to produce white, food-grade sugar.⁹⁰

Thailand and Australia account for more than 99% of Indonesia's total sugar imports, with Thailand accounting for the most at 85% in 2019.

As an early outcome of IA-CEPA in 2017, Indonesia reduced its tariff on Australian sugar from around 8.8% to 5%.

Packaged food and beverages

The Indonesian market for packaged food and beverages was worth \$55 billion in 2019.

Australian packaged food and beverages are already popular with affluent consumers in larger cities who are more familiar with international brands and imported products. Popular Australian products include western snacks and packaged foods such as muesli, granola, cereals, wine, meat, and dairy.

Middle and upper income earning Indonesian consumers have driven growth for premium products and the expanded modern retail sector has driven availability of these goods. In turn this has greatly benefited imported products in major urban centres such as Jakarta and Surabaya, where

demand for imported products continues to be driven by consumers seeking quality, innovation, exclusivity and premium flavours.

Staple foods are expected to be the [fastest growing packaged food category](#) in Indonesia with a projected value of \$27 billion by 2024.⁹¹ Staple foods include baked goods, breakfast cereals, processed fruit and vegetables, processed meat and seafood, and rice, pasta and noodles.

An opportunity exists for packaged Australian products to differentiate from local Indonesian products by incorporating Australian flavours and tastes with familiar products such as instant noodles.

Focus on IMPORTING

How to identify a potential importer

- Approach potential importers through email introductions first and follow up with a phone call.
- Disclose any prior history of exporting to Indonesia or other ASEAN and Asian countries in the early stage of any business discussions.
- Check they have obtained an applicable import licence as required by the Indonesian Government.
- When border restrictions allow, participate in international exhibitions attended by Indonesia buyers such as Food Hotel Indonesia, Food Hotel Asia, Asia Fruit Logistica and Indo Livestock.

Visit the market

- Meet with your potential importers to view their warehouse and distribution facilities, and to discuss the procedures and regulations related to exporting agrifood products to Indonesia.
- Visit some stores to understand distribution channel options, quality standards, and discuss marketing and promotion.

Work in partnership to introduce your product in the market

- Most Indonesian importers welcome the opportunity to work with Australian exporters to create awareness of new products and brands.
- Collaborating with local importers on promotional campaigns and educating the market is proven to be an effective way of growing market share.



Overcoming challenges

Plan well in advance

Indonesian domestic policy settings may present challenges for exporters. Australian businesses should plan to commence exporting up to 2 years in advance and take the time to understand Indonesia's regulatory environment as it differs significantly from Australia.

Indonesia is a highly regulated market with multiple government ministries having responsibility for the import of food and beverages. Regulations change often and sometimes with little advance warning.

There are a number of steps that must be completed before exporting from Australia to Indonesia, including registering products with the relevant government authority. For instance all food and drink products imported must be registered with the Indonesian Food and Drug Authority (BPOM). For further details, including on the registration process, see Austrade's export services advice: <https://www.austrade.gov.au/australian/export/export-markets/countries-and-economies/indonesia/market-profile/market-profile>

Product registration is not a complex process, but usually takes 6–12 months, and sometimes up to 2 years. Meat and dairy products tend to take the longest time to go through the product registration process, with many steps and a fair amount of paperwork to complete. Exporters cannot register products directly with BPOM; this must be done via a local importer or distributor.

An important Indonesian Government policy that Australian exporters should be aware of is around halal certification which determines whether products have been prepared in a way that enables their consumption by the Islamic population. Indonesia is transitioning to a single national regulatory scheme which will require all relevant products distributed and sold to be halal certified. The government body regulating halal certificates is called the [Halal Product Assurance Body \(BPJPH\)](#)

Exporters can find further information about the halal certification process at www.halal.go.id/layanan/sertifikasi

In addition to halal requirements, products that claim they provide health benefits to the consumer need to have evidence to support their claims.

Exporters should also be aware that once product packaging has been approved it cannot be altered when it arrives in Indonesia.

Establishing a strong working relationship with an Indonesian importer who is familiar with local conditions can help Australian exporters navigate Indonesia's regulatory environment and business practices.

Partner with a trustworthy importer or distributor

To reach the Indonesian market, Australian exporters must partner with an Indonesian importer and/or a major distributor. They will be involved with pre-shipment aspects, product distribution, acquiring any government import permits and product registration.

Completing a careful assessment of an importer or distributor before working with them is important to ensure a successful partnership. Australian exporters should find an importer that they trust, who has experience in their product category, and who has established relationships with key stakeholders in the import process.

Australian businesses should assess the distribution capabilities of importers and distributors to ensure they meet their market entry requirements and expectations. As a starting point, the Australian Food and Grocery Council [Food and Beverage Export Guide to Indonesia](#) lists potential Indonesian distributors and importers.⁹²

Be competitive

New entrants will face existing competition in the market, not only with other Australian products, but also with products from other countries.

In such a competitive market, it is important to understand the target consumer value proposition, as well as tailoring products to make them stand out from the crowd. When selecting products for the Indonesian market, local importers consider factors such as reputation, origin, and health benefits.

Australian businesses could consider taking advantage of the innate characteristics of their product to differentiate it from similar products already in the market. Leveraging Australia's reputation for high-quality "clean and green" food and beverages could be one option, particularly as consumer interest in the origin of a product develops.

Striking the right balance between flavour novelty and familiarity is also key. Indonesian consumers tend to purchase products they are familiar with, however

there is a willingness to try new products. An opportunity exists for packaged Australian products to differentiate from local Indonesian products by incorporating Australian flavours and tastes with familiar products such as instant noodles.

Including a budget for marketing can help to give products a competitive edge. Local importers, distributors and retailers can work with Australian exporters to create hype around a product, including the most effective way to use social media for product promotion.

Australian exporters looking to introduce their product to the market should discuss with their distributor the different marketing strategies to be used when approaching key supermarkets, hypermarkets and convenience stores.

Further information

More detailed information about IA-CEPA outcomes for agriculture can be found at the Department of Foreign Affairs and Trade website at: <https://www.dfat.gov.au/trade/agreements/in-force/iacepa/outcomes-documents/Pages/outcomes-goods>

Austrade's Indonesia Market profile market contains specific advice on agribusiness and food, along with information on trade events on Indonesia. <https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Indonesia/Market-profile>

[Department of Agriculture, Water and the Environment](https://www.agriculture.gov.au/export) provides a range of resources and support for Australian agricultural exporters, including practical information on destination markets, fees, registration, licensing and other export processes. Visit <https://www.agriculture.gov.au/export> for more information.

[Meat & Livestock Australia](https://www.mla.com.au/) delivers marketing and research and development initiatives to Australian industry stakeholders to improve profitability, sustainability and global competitiveness. For further information visit <https://www.mla.com.au/>

[Dairy Australia](https://www.dairyaustralia.com.au/) is the national services body for the Australian dairy industry, funded by a combination of levies paid by dairy farmers and matching payments from the Commonwealth Government for eligible research and development (R&D) activities. Dairy Australia's purpose is to support the profitability and sustainability of dairy farming. It works closely with levy payers and other important stakeholders to understand their needs and shape its investment priorities. Dairy Australia provides practical tools, services and advice to assist farming operations and the dairy supply chain.

Its investments in innovation are focused on increasing farm productivity and the global competitiveness of the Australian dairy industry. This includes attracting people to the industry, building skills, providing insights, informing policy formation and trade relations, promoting the benefits of dairy to consumers and meeting community expectations on issues such as environmental impact and animal welfare. For more information visit <https://www.dairyaustralia.com.au/>

[Hort Innovation](https://www.horticulture.com.au/hort-innovation/the-company) is a grower-owned, not-for-profit research and development corporation for the Australian horticulture industry. Funded by grower levies and Australian Government contributions, Hort Innovation invests in research and development, marketing, and trade programs on behalf of local industry. For more information visit <https://www.horticulture.com.au/hort-innovation/the-company>

[Australian Export Grains Innovation Centre \(AEGIC\)](https://www.aegic.org.au/) is Australia's leading organisation for market insight, innovation and applied solutions for the grains industry. AEGIC aims to increase value in the Australian grains industry by ensuring Australian grain meets the needs of customers and end-users. For more information visit <https://www.aegic.org.au/>

[AUSVEG](https://ausveg.com.au/export/) is the peak industry body for the vegetable and potato industries. It provides advocacy, communications, biosecurity services, environmental sustainability services, and export development. Visit <https://ausveg.com.au/export/>

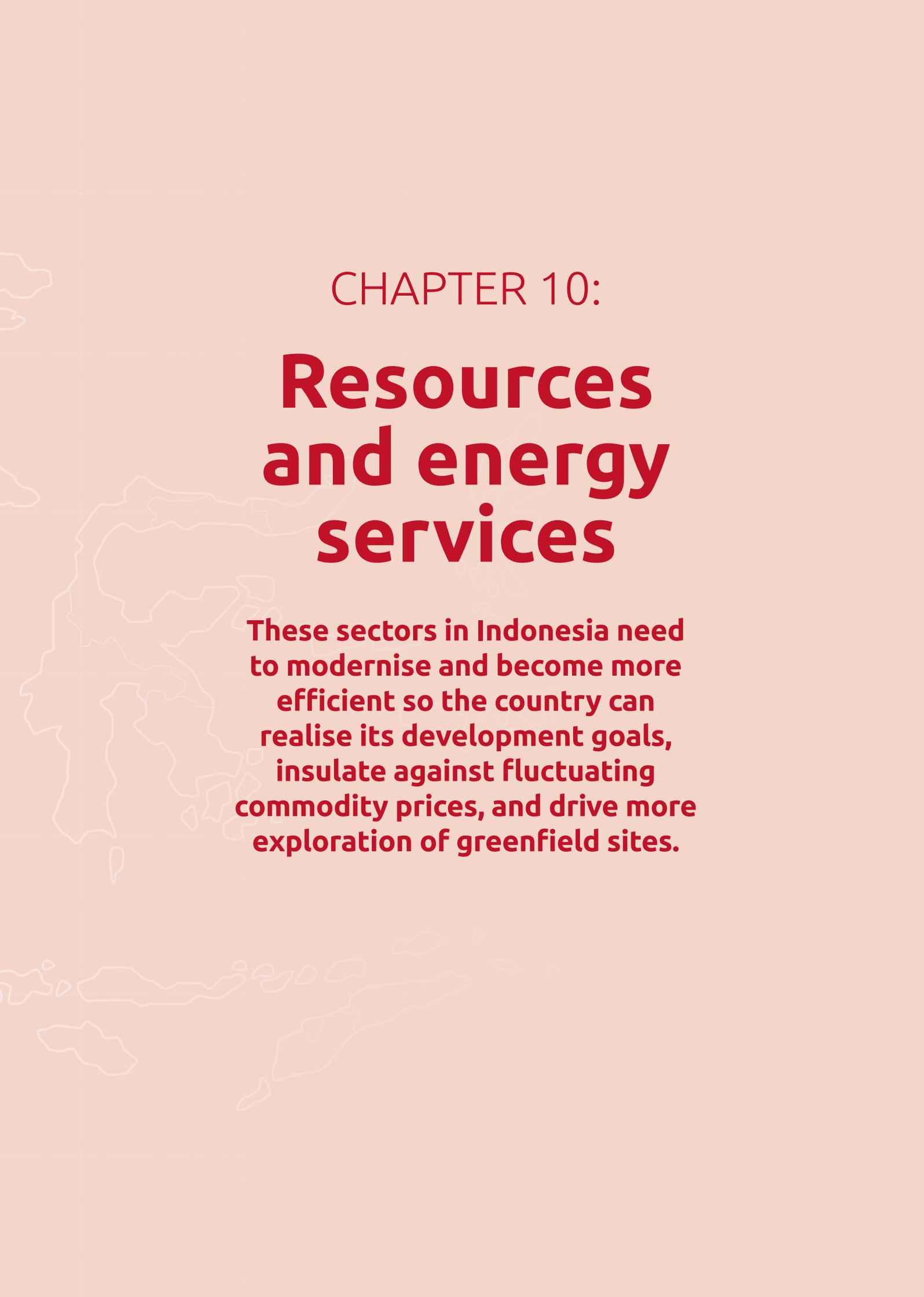
[The Grains Industry Market Access Forum \(GIMAF\)](https://www.gimaf.com.au/) is a forum of peak industry bodies in the grains, seed and fodder sectors. It works to develop and implement market access plans for the industry. It also oversees and directs market access activities under the Grains Industry Market Access Strategic Plan. Visit <https://www.gimaf.com.au/>

[Grain Trade Australia \(GTA\)](https://www.graintrade.org.au/) works to formalise commodity trading standards, develop and publish trade rules and standardise contracts across the grain industry. Visit <https://www.graintrade.org.au/>

[Australian Food and Grocery Council](https://www.afgc.org.au/member-services/economics-and-trade/indonesia-market) is the peak industry body of the food and grocery sector. It published a Food and Beverage Export Guide to Indonesia in 2020 which can be accessed at <https://www.afgc.org.au/member-services/economics-and-trade/indonesia-market>



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CHAPTER 10:

Resources and energy services

These sectors in Indonesia need to modernise and become more efficient so the country can realise its development goals, insulate against fluctuating commodity prices, and drive more exploration of greenfield sites.

Resources and energy services

Key points

- **Population and policy changes are forcing Indonesia to secure its resources and energy future by moving beyond basic mining.**
- **IA-CEPA provides greater legal certainty for Australian businesses to maintain majority ownership in vocational training, contract mining services and mine site preparation services, and specific energy infrastructure.**
- **Opportunities exist in contract mining, engineering services, ESG cooperation, investment funds, energy consulting services and the emerging energy services market.**
- **Australia's resources and energy services sectors have long had a good reputation in Indonesia for best practice and this extends to Australian companies in other parts of these sectors.**

Moving up the value chain

An overview of the sector

Indonesia is a key producer of hydrocarbons, copper, gold, nickel, tin, and bauxite, and is the world's largest exporter (41% of global supply) of thermal coal. Mining alone contributes almost 5% to Indonesia's GDP and is dominated by state-owned enterprises (SOEs). However, a transformation of these SOEs is under way with four of them – PT Antam Tbk, PT Bukit Asam Tbk, PT Timah Tbk and PT Freeport Indonesia – merged in 2017 to become part of a single state-owned mining industry holding company which is now known as 'MIND ID' (Mining Industry Indonesia).

The formal mining sector employs more than 1.3 million workers and contributes significantly to economic development particularly in Riau, South Sumatra, East and South Kalimantan and the two provinces of Papua and West Papua, albeit unevenly. Indonesia is also proximate to key export markets such as China, Japan, India, and Singapore.

The country's growing middle-class population, coupled with government plans to expand the manufacturing base and provide universal energy access, makes for an energy-hungry economy that will profoundly shape the country's future.

Despite this promising outlook, the resources and energy services sectors have been hit by global developments including fluctuating commodity prices, supply-chain disruptions and lower workforce mobility due to COVID-19. The pandemic has resulted in reduced electricity demand, and a slowing domestic economy as Indonesia faces its first recession in 20 years.

Despite its substantial resources, Indonesia is a net importer in some key commodities, such as oil, iron ore, metallurgical coal, high-quality thermal coal (blended with domestic thermal coal to increase calorific value and lower sulphur content to meet emission standards) and some critical minerals.

Figure 10.1: Key resources production and energy generation sources

	Indonesia	Australia
Key resources production		
Thermal coal (Mt)	616	297
Copper (kt)	651	920
Gold (t)	135	315
Nickel (kt)	606	170
Tin (kt)	85	6.87
Bauxite (kt)	11	86.4
Oil (Mt)	38.2	20.6
LNG (bcm)	16.5	104.7
Energy generation sources		
Coal	31.8 GW (50.7%)	46.2 GW 12,843.4 PJ (69%)
Gas	16.3 GW (26%)	17 GW 4731.2 PJ (25.4%)
Oil	4.6 GW (7.4%)	2 GW 572 PJ (3.1%)
Hydropower	4.4 GW (7%)	1.4 GW 382.1 PJ (2.1%)
Geothermal	1.9 GW (3%)	Collectively classified as renewables
Biomass	1.7 GW (2.7%)	
Wind	0.1 GW (0.2%)	
Biogas	0.12 GW (0.2%)	
Solar	0.06 GW (0.1%)	
Labour		
Number of workers in mining sector	1,300,000	240,000
Number of workers in renewable energy	519,196	30,453

Figure 10.2: Bilateral trade exports

	Indonesia to Australia	Australia to Indonesia
Value in \$m		
Crude petroleum	288	758
Refined petroleum	634	3
Coal	16	629
Iron ores and concentrates	-	454
Gold	332	-



Image credit: Shutterstock

It is striving to reduce fuel imports for electricity (e.g. by using domestic coal) to become more energy independent. Like many resource-endowed countries, Indonesia needs to balance its domestic energy demand with the opportunity to export for foreign currency. The government aspires to shift its energy mix to reduce dependence on oil and increase renewable energy.

The government has set a target for 23% of energy to come from renewables by 2025. The projections for the components of this renewable energy are solar (73% and 208 GW); wind (21% and 60.6 GW); and ocean or tidal (6% and 17.9 GW). According to the Asian Development Bank (ADB) the potential contribution of renewables could be significantly larger due to rapidly advancing renewable technology. For example, covering only 1.5% of Indonesia's territory with solar PV panels would generate 23 times the electricity generated currently.

But achieving this ambition has proven challenging, particularly due to the impact of fossil fuel subsidies. Indonesia's ranking dropped to 70th out of 115 countries in the [Energy Transition Index](#), according to the World Economic Forum. While the government's electricity plan estimated annual electricity demand to increase by 6.4% through 2019–2028, actual demand growth was 4.5% in 2019 and 2.8% in January 2020. Furthermore, Indonesia's state-owned power company, PLN, has reduced its 2020 revenue target by 14.6%, due to decreased demand caused by the pandemic.

Furthermore, Indonesia has been identified as a high potential market for the widespread adoption of electric vehicles (EV). The Indonesian Government has [set a target](#) of exporting 200,000 electric cars by 2025. This figure represents 20% of a 1 million car export target.

Australia's role in Indonesia

Indonesia's resources and energy services sectors need to modernise operations and become more efficient so that the country can realise its development goals, insulate itself from fluctuating commodity prices, drive greater exploration of greenfield sites and prepare for disruption from megatrends. Indonesia already has a good foundation with its young population, strong growth forecasts and political support to move the country up value chains.

Australia is a world leader in mining, particular contract mining, and mining equipment, technology and services (METS). Currently, METS contributes about \$90 billion in revenue to the Australian economy annually and is critical to the trading relationship with Indonesia. According to the Minerals Council, around 140 Australian-based

METS companies export equipment, product, or technology to Indonesia valued at \$1.7 billion, including at least 40 ASX-listed companies. For many firms, Indonesia consistently rates as the top or second top priority market.

Australia is a very strong player in the energy and renewables sector. For example, it has a very high proportion of rooftop solar installations and 24% of Australian power generation in 2020 was sourced from renewable energy. In recent years, the Australian Government launched new initiatives in this space, including the Modern Manufacturing Initiative (the subprograms Resources Technology and Critical Minerals Processing National Manufacturing Priority Roadmap and the Recycling and Clean Energy National Manufacturing National Manufacturing Priorities) and the Technology Investment Roadmap.

Australia has expertise in energy efficiency, technology solutions (smart grids and other innovative grid solutions) and specialised intellectual property (IP) for renewables. Indonesia may also need to import some commodities – such as iron ore and metallurgical coal – to achieve its domestic industrial ambitions. For example, achieving Indonesia's EV ambition will require large quantities of nickel, cobalt, manganese, and lithium for battery manufacturing.

Australia is both a leading exporter of minerals (the world's largest producer of lithium and a top five producer of cobalt, manganese ore and nickel), and could also share the know-how for processing. The energy sector is inherently capital intensive, and technologically sophisticated, and will benefit from foreign assistance, trade, services, and investment to enable its transformation. More cooperation and engagement between Australia and Indonesia will lead to potential upsides for both countries.

Recent policy developments

IA-CEPA

IA-CEPA provides enhanced legal certainty for two-way investments between the countries. Chiefly, it provides greater certainty for Australian investors in this capital-intensive sector, with safeguards and dispute settlement mechanisms. The agreement guarantees that Australian METS investors will always be able to maintain a controlling stake in their investments. It also brings changes to dispute settlement, replacing the 1992 Bilateral Investment Treaty. It is important that businesses familiarise themselves with these new provisions, including the Investor-State Dispute Settlement (ISDS), and note they are yet to be tested.

The EV advanced manufacturing industry has been identified as a key priority for economic cooperation in IA-CEPA. Bilateral dialogues are planned to exchange knowledge on commercial linkages between component manufacturers and the automotive industry, lithium-ion battery technology development, and supply-chain discussions on securing raw materials and EV components.

The Job Creation Law

This Law, detailed earlier in this Blueprint, has specific implications for mining and energy. Fiscal incentives are granted to improve coal processing and make coal-processed products more competitively priced. For example, a 0% royalty fee is granted to mining permit holders to engage in value adding activities for coal. In relation to employment, start-up companies “based on technology” can hire foreign nationals with fewer requirements; the maximum permitted overtime hours increased from 14 to 18 hours in any one week; and companies do not need to pay enhanced severance for employee termination.

A key change is a revision to the 2009 Mining Law that removes regional governments’ authority to issue any type of mining licences. This re-centralisation of power comes at the expense of provinces and municipalities and gives the central government greater oversight with the intention of improving the mining business environment.

The associated new investment priority list does not change the foreign direct investment framework for mining projects or mining services. However, certain mining activities (e.g. nickel ore mining) have been prioritised for investment and are potentially eligible for tax facilities and benefits, subject to the satisfaction of certain requirements. Implementing regulations for the Law are still being developed, so further detail will become clear as they are released.

Climate and energy policy

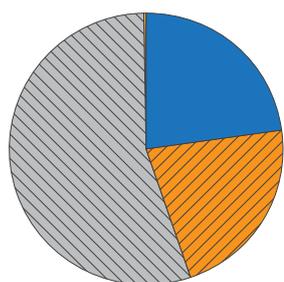
Indonesia is the 10th largest greenhouse gas emitting country and 19th highest in terms of CO₂ emissions per capita, according to the International Energy Agency. While deforestation is a key contributor to greenhouse gas emissions, emissions from energy use and agriculture are also catching up. According to the government’s Low Carbon Development Plan, 38.3% of greenhouse gas emissions came from energy systems in 2017.

Indonesia committed to an unconditional target of 29% emissions reduction and a conditional (international assistance funded) target of 41% against business-as-usual by 2030 under the Paris Agreement. The energy sector is targeted to reduce greenhouse gas emissions by 314–398 million tonnes of CO₂ by 2030 (Government Regulation No. 79/2014). While the government has adjusted its energy mix to target renewables generating a 23% share, Indonesia’s emissions are projected to rise sharply to 2030, with fossil fuels steadily rising through to 2045, according to the ADB’s Indonesia Energy Sector Assessment, Strategy, and Road Map.

Indonesia has initiated policies on energy conservation and efficiency over the last decade. These include regulations for energy management and energy performance standards, awareness raising initiatives to increase uptake of energy efficiency and capacity building programs and increasing financing for energy efficiency through energy services company (ESCO) business models. The draft National Energy Conservation Master Plan (Rencana Induk Konservasi Energi Nasional or RIKEN) would commit to new measures such as energy audits, energy management implementation, certification and auditing, and enhanced public awareness.

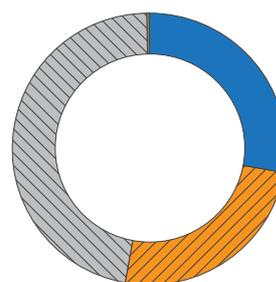
Figure 10.3:

Primary energy mix target by 2025 under Indonesia’s 2014 National Energy Policy (KEN)



■ New and renewable energy (23%) ■ Gas (22%) ■ Coal (55%) ■ Oil (0.4%)

Long-term goal under the National Electricity Plan (RUKN)



■ New and renewable energy (28%) ■ Gas (25%) ■ Coal (47%) ■ Oil (0.1%)

Source: Asian Development Bank (2020), ‘Indonesia Energy Sector Assessment, Strategy, and Road Map’



Image credit: Shutterstock

Electrification program

Electricity consumption will grow as the emerging middle-class demand for air conditioning, fans and electrical appliances increases. In addition, Indonesia aims to [expand electricity access](#) in remote areas and islands as it aims for “near-100%” electrification by 2026. Electricity currently reaches 98.9% of homes and businesses. It should be noted that the 100% target does not specify the tier of electrification, and further development is needed to provide uninterrupted electricity for all. In addition, electricity access has not been equally provided by region; as of 2019, only 15 out of 34 provinces have reached 99%.

Private-public partnerships

Efforts are under way to promote private sector participation in the energy sector through private-public partnership (PPP) mechanisms. The 2GW Batang Central Java Coal Power Plant was identified as a PPP project in 2005 and is expected to be operating in 2021. This would be the first PPP project in the energy sector. A 12-city Waste to Energy Development Plan and a Gas Distribution Network Development Plan are also expected to use PPP mechanisms.

To further promote PPPs, the Ministry of Finance intends to provide \$5.7 billion (Rp 64.4 trillion) subsidies and has budgeted \$525 million

(Rp 5.9 trillion) to extend a project development facility aimed at deepening capability.⁹³ Partnerships with international institutions such as the ADB provide support to government contracting agencies in preparing for these PPP projects to draw in private sector participation.

Electricity distribution gaps

The islands of Java, Bali and Madura together had an estimated electricity demand of 181 terawatt-hours (TWh) in 2019, followed by Sumatra at 38 TWh and the remaining main population centres of Kalimantan, Sulawesi, Maluku, and Papua at 24 TWh.

Java, Bali and Madura contain 40 gigawatts or 62% of national generating capacity for approximately 60% of the country’s population. Together with Sumatra (8.6 gigawatts) and Kalimantan and Sulawesi, these regions comprise about 90% of national energy needs.

The rest of Indonesia’s generating capacity is across 600 isolated systems. While many of the provinces that have achieved 99% electrification will experience slowing electricity demand growth, the 2019–2028 Electricity Supply Work Plan says that five out of the six provinces on the island of Sulawesi plus the provinces of East and West Nusa Tenggara, East Kalimantan, West Sumatra, and Yogyakarta will have growing electricity demand.

Figure 10.4: Electricity demand (terawatt-hours) by island, and provinces with rising electricity demand, 2019

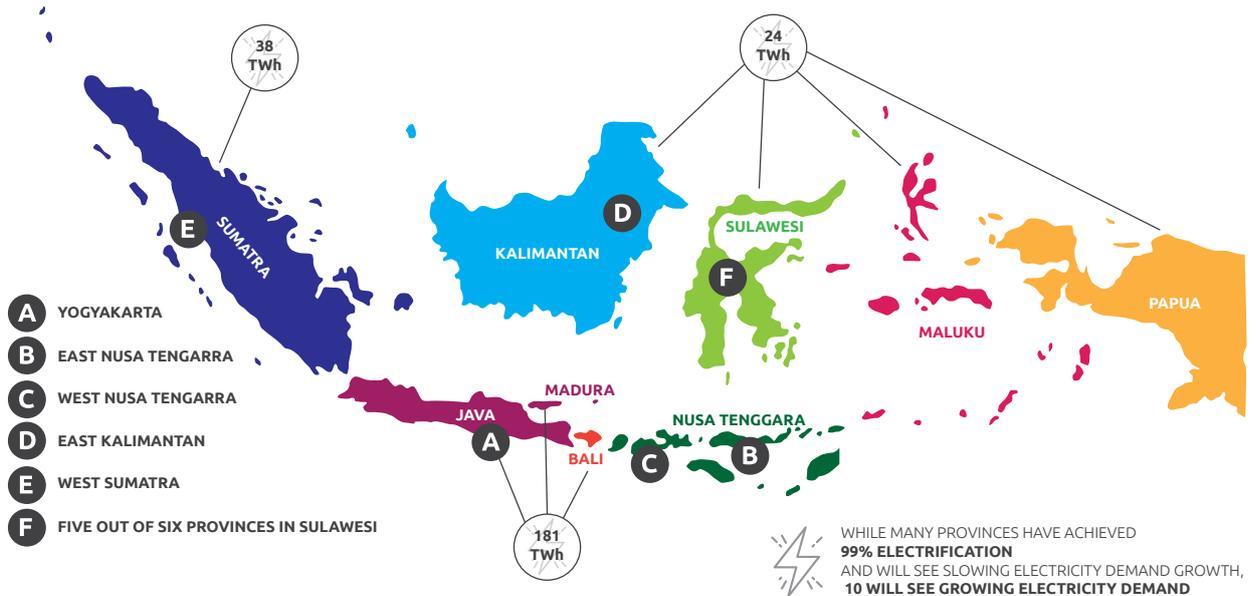




Image credit: Shutterstock

Case study: METS Ignited

Keeping up with a changing industry

Established in 2015, METS Ignited is an industry-led, government-funded Industry Growth Centre for the METS sector. It works with Australian suppliers to the mining industry, global miners, research organisations and capital providers to improve the global competitiveness and productivity of the Australian METS sector. Indonesia represents one of the largest core markets for the company. Indonesian mining companies are rapidly moving up the technology curve. METS Ignited has seen an acceleration of the Indonesian industry striving to attain international standards of safety, productivity, and sustainability. These are all Australian strengths in this sector. METS Ignited sees a gap in the sector for integrating the disconnected parts of the value chain, to provide a seamless, end-to-end solution. Australia has a longstanding reputation in being an experienced integrator of disparate technology into complex supply chains. This influence means that should Australia be able to build the integrated technology on open platforms, and establish common standards, the research can be commercialised into products or services, and offered in the global marketplace. Australia already has the benefit of a highly experienced research sector. Mining companies that operate here are global leaders, and they invest in research capabilities. The next step now is to engage vendors in solution development discussions and make available the knowledge for the whole industry to adopt these common standards. To unlock the maximum value for the METS sector, industry players must make a clear distinction between the METS industry being an end-user of technology and innovation, and the industry producing the technology and innovation for commercial purposes. If Australian companies do not seize these opportunities, they will face diminishing returns as bespoke technology gets phased out by the market and competitors in Europe and Asia take market share away. To stay future relevant, it is imperative for the industry to address this commercialisation challenge urgently, to reap benefits domestically and internationally.

Where the opportunities are

Contract mining and METS

Indonesia has been one of the most successful export markets for Australian contract miners and METS suppliers, with potential for growth. METS firms with business interests in Indonesia provide services ranging from whole-of-mine services to niche areas like fuel management, mines communications and mining software. Contract mining and METS demand is projected to continue due to lower prices for commodities driving the

need for cost savings and productivity gains; skills shortage; and need to improve mine safety. The government has enacted a policy for downstream processing and refining of minerals to be conducted domestically, which means that mining and exploration software, specialised equipment supply, training, engineering, and consulting services will be increasingly sought after. METS firms doing business in Indonesia include Thies, Orica, McMahon, Micromine, MineARC Systems, Earth Systems and BIS Industries.



Image credit: Shutterstock

Indonesia's exploration activities have been declining due to the exhaustion or inaccessibility of resources, government intervention in setting quota limitations and environmental considerations. For example, Freeport Indonesia, which operates the Grasberg mine known for its abundance in gold and copper, will be transitioning from open pit to underground mining by 2022.⁹⁴ The need for Indonesia to exploit more critical minerals presents an opportunity for Australian companies with experience in bespoke mining methods for an array of mineral resources.

Indonesia's investment and employment hub lies in the densely populated western islands of Java and Sumatra. The eastern islands have considerable geological potential but are more challenging to access. For Australian METS companies, the opportunity is ripe for exporting more services, particularly in the more remote eastern region. With greater direct ownership of operations, it may also prove to be less risky for Australian companies to provide such ancillary services instead of going into more capital-intensive upstream areas like production and exploration or seeking to own resources.

Environment, social and corporate governance

Investors are increasingly looking at the environment, social and corporate governance (ESG) performance of companies as a proxy for good corporate governance and risk assessment. By improving ESG standards, companies can benefit from favourable credit ratings and improved investor confidence. Australia and Indonesia have an opportunity to elevate their ESG cooperation. Several ESG standards have been adopted by the mining sector globally. An example is the International Council on Mining & Metals (ICMM) that lays out principles for sustainable development. Under these principles, mining companies need to establish continuous engagement at mine sites with third parties such as non-government organisations (NGOs), local or indigenous communities and various community leaders.⁹⁵ This is a marked shift away from annual 'spot-checks'.

Enhanced bilateral engagement on ESG would be a net benefit to business. For example, mine site rehabilitation is a growing interest area to restore the ecosystem and land after mining activity. Given the strict site remediation criteria around mining sites, Australia can offer expertise in analysing and customising solutions for long-term successful outcomes. Currently, Engineers Australia (EA) is working with its Indonesian counterpart to gain full signatory status to the Washington Accord on mutual recognition of engineering qualifications, which would allow EA to start discussions on an

agreement to recognise registered/chartered engineers. This would make it easier for Australian engineers to work on projects in Indonesia and vice versa.

Cooperative investment

Taking a long-term approach to ESG standards will pave the way for greater bilateral investment through capital raisings, debt facilities or even potential sovereign wealth and superannuation funds. Super funds present a longer term opportunity. Australian funds manage around \$2.7 trillion and are seeking areas for diversification. The typical investment horizon for super funds is long term, which aligns with that of resources and energy projects. A key challenge is that funds and listed investment vehicles usually have strict ESG requirements. This is coupled with a preference for low-risk investments with predictable returns.

The Future Fund, which integrates ESG as a key consideration in investment opportunities, could lead the way on bilateral engagement. The Fund has already participated in a dialogue with India. By starting the policy dialogue, it could broaden the engagement to include other investment and superannuation funds in both countries. The Australian Sustainable Finance Initiative could make a useful contribution to the policy dialogue.

Energy efficiency

Indonesia recognises the importance of accelerating the uptake of energy efficiency and has set requirements on energy conservation for companies that represent around 60% of industrial energy consumption. But it is still developing the policy framework for ESCOs which provide energy efficiency services to industrial businesses which are usually financed based on energy savings. More regulations on energy audits and management systems are expected in the coming years, which represent potential opportunities for Australian companies such as Ecosave, ESCO Pacific and ESCO.



Cross-cutting issues

Several complex issues in Indonesia's resources and energy services sectors need to be addressed through a strategic, collaborative and cross-sectoral approach. Trade and investment cross-cutting issues are examined in this section.

Role of investment

Indonesia needs investment in energy infrastructure more than in energy generation. New transmission networks and technologies, including smart grids, utility scale solar installation, back-up systems, substations with load bearing and transformer capacity, energy storage systems, submarine cables between islands and microgrid development in remote areas are the types of infrastructure the country needs. Opportunities exist to invest in this infrastructure and offer Australia's considerable expertise could be brought to bear and explored

through joint ventures with foreign-owned companies in line with local ownership, technology transfer and investment requirements.

As SOEs continue to come under financial strain, the private sector can play a role in meeting the sector's needs. Private companies accounted for only 30% of financing for Indonesia's power sector from 2016 to 2019, according to the ADB's Indonesia Energy Sector Assessment, Strategy, and Road Map. Public finance was expected to provide 51% of the \$193 billion investment required for energy infrastructure through 2025. For 2020, the government had budgeted only one-fifth of the \$1 billion needed before the pandemic began and has since reduced state investments by half.



Image credit: Shutterstock

Industry 4.0

Industry 4.0 has broad applicability in the resources and energy services sectors. For example, there are mounting challenges facing the mining sector, especially as more accessible resources are being exhausted. Automation, robotics, artificial intelligence, data communications and vision systems make remote operations a reality, with higher safety standards. Advanced sensing and robotic technologies can also deliver high precision and accurate mining outcomes and reduced environmental impacts.

Energy systems of the future will be increasingly digitised, and able to operate more precisely to deliver energy at the right time and place, at the lowest cost. While this shift delivers benefits in safety, reliability, accessibility and sustainability for energy systems, digitisation also brings about new cybersecurity and privacy risks.

Education and skills building

Education, skills, and training are necessary to provide the workforce needed for Indonesia's long-term energy transition. With the government's energy mix targets, this will push demand for new skills related to the renewable energy sector. Examples include decision-making using big data sets, modelling and geographic information system skills, operating advanced extraction technologies, and technical expertise in material sciences and nanotechnology. Australia can play a role in helping build this human capital.



Image credit: Shutterstock

Risks and challenges

Investing for the long term

More than most other sectors, investing in Indonesia's resources and energy services industries requires a long-term approach. For mining, the government's broad approach to the sector has been clear since the 2009 Mining Law. While there may be adjustments to the regulatory and fiscal framework, the trends are clear. For energy, policy frameworks are evolving as the country continues to grapple with the challenge of decoupling economic growth from emissions. Taking a long-term approach can be particularly challenging for listed companies as shareholders can be focused on quick returns.

Businesses entering the market should consider focusing on private sector opportunities first rather than those with government or SOEs. Winning business with SOEs will require a patient approach to building relationships. Doing business with private companies offers a chance for more immediate revenue while SOE relationships develop. A sound long-term strategy should include both the private sector and SOEs, as the former may be easier to tap into at the onset, and the latter is a more stable source of growth.

The workforce of the future

The growing population in Indonesia means that approximately 2 million young people enter the Indonesian workforce yearly. However, the spread of human capital is not even across different

sectors, as the younger generation prefer engaging in ecommerce, wholesale trade, community services and manufacturing in the formal sectors. Further, an estimated 55–65% are also involved in the informal sector.

Against this backdrop, the resources and energy services sectors have a pressing need to move up the technology curve. Universities and technical training institutions generally do a good job of training engineers and geologists. An emerging challenge, however, is to train and recruit the technologists and data specialists needed for these rapidly evolving sectors. This is made even more difficult by competition from Indonesia's booming technology sector, which is seen as a more attractive destination for graduates than resources.

Dealing with regional variations

The shift towards decentralisation has added to the complexity of business in Indonesia, as discussed earlier in this Blueprint. In the mining sector, promising geological areas may not have the most effective governance structures and processes in place. According to the [annual KPPOD survey](#), which ranks local government districts, those in the eastern part of the country had lower levels of competitiveness across environmental, social, economic and governance factors. Australian businesses need to be aware of the impact on risks and costs as they conduct due diligence on business opportunities and plan for market entry.

Case study: EMR Capital

Funds need to build capability and take a long-term view to prepare for future opportunities

EMR Capital is proof that commitment to the Indonesian market can deliver investment returns and support the local community.

The specialist resources private equity manager, founded by miner Owen Hegarty and Jason Chang, former Head of the Asia Practice for KPMG in Australia, has made Indonesia one of its target markets due in part to the exceptional geology.

The fund acquired the Martabe gold mine in North Sumatra in 2016 and successfully exited 2 years later, increasing EBITDA from US\$240 million to US\$375 million. The mine boosted the local economy, with around three-quarters of the 2,500 staff and contractors coming from local communities.

EMR Capital's success stems from deep market understanding and a long-term commitment. Indonesia remains an attractive investment target, according to Chang, now the CEO Managing Director. He points out that changes in the investment environment haven't deterred capital from other countries, including the United States.

"Australian investors need to recognise that while Indonesia's investment environment has shifted it still remains attractive," Chang says. "The key is to build expertise and be committed for the long term. By taking a genuine partnership mindset it's possible to create value for all parties."

He says Australian fund managers should start developing their Indonesia capability now to prepare for future opportunities. "There are no short-cuts for investing in Indonesia. Funds need to invest in their Indonesia expertise and start building connections in the market. By taking the long-view they will be able to capitalise on future opportunities."

Approaches to Indonesian business

Shared value chains

The broader resources and energy services sectors offer many opportunities for Australian businesses to take a value chain approach to identifying areas where they can fill gaps in line with Indonesia's development ambitions.

Even though Indonesia is endowed with rich geology, its ambitions for the steel industry will require it to import growing volumes of iron ore and carefully consider energy requirements for low emission steel production. Similarly, Indonesia wants to ride on the rising EV demand but lacks some key minerals to manufacture EVs and batteries. Supporting Indonesia in these areas should not be limited to exports. We should encourage more Indonesian companies to invest in exploration, mining, and production in Australia. And Australian exploration expertise can help explore new and more geologically challenging areas of Indonesia.

Likewise, there are multiple opportunities in the energy value chain for Australia to partner. The realities of Indonesia's energy transition mean that it will continue to burn coal for some years. But Indonesia has exploited much of its high-quality thermal coal and burning lower quality coal has worse climate impacts. By taking a value chain approach, we can work with Indonesia on several fronts, including by exporting high-quality thermal coal and retrofitting power plants to burn lower quality coal more efficiently.

Beyond fossil fuels, there are opportunities to secure Indonesia's electricity supply sustainably. One example is Sun Cable, which has ambitions to provide intercontinental solar power to Southeast Asia via a high-voltage sub-sea transmission system.

Case study: HRL

Improving Indonesia's energy security

Since the 1950s, HRL has advised some of Australia and Southeast Asia's largest energy, resources, manufacturing, and industrial companies. With expertise in power generation, laboratory analysis and process engineering, HRL helps customers improve their technical and commercial performance. As Indonesia has sought to shift its energy mix to incorporate more renewables, achieve lower emissions targets and upskill their workforce, two key trends have emerged. Firstly, the quality of the energy feedstock has decreased in Indonesia as higher quality resources get exported; and secondly, older power plants need to be modified and optimised to use the current fuel quality and meet modern emission standards. HRL's expertise in plant optimisation and assessment makes it well placed to help Indonesia make this energy transition. For Australian businesses seeking to engage Indonesia, HRL suggests looking to serve the needs of the private sector in the short term, while building up essential relationships in the public sector, via in-person meetings if possible. In the long term, the time spent on nurturing those relationships will pay off.

Build long-term relationships

Successful Australian companies in Indonesia have often spent years developing their market knowledge and building relationships with key players. This needs to go beyond commercial partners and extend to building broader influence.

One example is the role of leading institutions such as Bandung Institute of Technology (ITB) and Padjadjaran University (UNPAD). Technical universities offer optimal points of engagement and present an opportunity to build influence. In addition to training the next generation of the workforce, they act as consultants to industry. Industry engagement with universities will increase exposure to Australian techniques and technology, in turn increasing the likelihood of adoption of these techniques by the sector more broadly.

Similarly, there are opportunities with organisations such as Geoscience Australia, which has a 10-year partnership with Indonesia on disaster management. A similar partnership in resources would elevate capabilities and knowledge in both countries.

Invest in human capital

The legacy of Australia's investment in the mining sector can be seen in the many experienced and senior Indonesians who have trained with Australian companies or in Australia. Likewise, there is a cohort of Australians who have extensive working experience in Indonesia. It is important to harness the institutional knowledge of these groups.

Both governments and industry have a role to play. Governments can facilitate technology exchange for specialist agencies and increase links between officials and industry. Australian industry should also offer more accreditation and training for Indonesian workers, both virtually and physically, particularly for emerging technology skills. Greater opportunities for Indonesians to undertake mining vocational training or higher education in Australia can go a long way to resolving the skills shortage in Indonesia. Further, setting Australian technology and services standards as the benchmark will invariably make it the preferred choice, creating a more seamless link between the countries.

Federal and state governments, business and industry could enhance cooperation, including through exchanges of employees.

Team Australia

Australian businesses interested in the resources and energy services sectors will encounter the Indonesian Government, businesses, and civil society as they look to position themselves in the market.

The Team Australia approach needs to extend to issues-based engagement that draws in all relevant stakeholders in the value chain. For instance, a dialogue around EVs would include critical minerals explorers, miners, processors, researchers, investors, manufacturers, federal and state regulators, and peak industry bodies. With the government as a convening partner, businesses will benefit from strategic discussions that account for the full value chain.



Image credit: Shutterstock



Direct relationships can be forged between Australian businesses and Indonesian officials. This approach can be replicated across multiple areas of shared interest for both countries.

Harmonising standards and best practice

Doing business between Australia and Indonesia will become easier with similar standards and common views of best practice across operations, investment, corporate governance, and other domains. From mutual accreditation for professionals through to ESG standards for investment, greater focus on this important area will yield long-term benefits.

It will be important to take a multi-faceted approach across governments and industry. An audit could be conducted of those areas that would most benefit from long-term standardisation and identify relevant actors to lead efforts. For instance, greater cooperation between stock exchanges may open future opportunities around capital raisings.

Support for innovation

COVID-19 has exacerbated economic inequities, particularly relating to gender and sustainable development. Addressing these challenges will require innovative approaches that leverage emerging technologies. Support for, and greater collaboration between, the start-up ecosystems in Indonesia and Australia will be an important driver to address these issues.

Government and industry need to foster more collaboration between the ecosystems in both countries. This could include, for example, knowledge sharing through accelerator programs, engaging with venture capitalists, and mentoring opportunities with prominent industry leaders. These efforts will create pathways for talent in both countries to become leaders in entrepreneurship, start-ups, businesses, and STEM disciplines.

Government collaboration on policy making will be crucial for emerging sectors. This is particularly the case for energy services, which is an emerging sector in Indonesia. Australia could offer support for Indonesia as it develops its policy and regulatory framework. This will help create an ecosystem that fosters innovation and start-ups.

Further information

- [Country Report: Electricity sector in Indonesia](#), Indonesian Ministry of Energy and Mineral Resources, Presentation to Japan International Cooperation Agency energy policy training course (June 2017)
- [Country Profile Indonesia: Decarbonising South and South East Asia](#), Climate Analytics (2019)
- First Nationally Determined Contribution, Republic of Indonesia, Government of Indonesia (2016)
- [Indonesia Diagnostic Report](#), Industrial Energy Accelerator, United Nations Industrial Organization (2019)
- [Indonesia Energy Sector Assessment, Strategy, and Road Map](#), Asian Development Bank (2020)
- [Indonesia Energy Outlook 2019](#), National Energy Council, Indonesia
- Indonesia's Electricity Power Supply Business Plan (RUPTL) 2019–2028
- [Indonesia's New Investment List: Liberalisation of foreign investment in the energy, resources & infrastructure sectors](#), Herbert Smith Freehills (March 3, 2021)
- [Indonesia Omnibus Law – Changes to the Mining Law](#), SSEK Indonesian Legal consultants (November 10, 2020)
- Indonesia Low Carbon Development Plan, BAPPENAS, Government of Indonesia (2020)
- Minerals Council of Australia [submission](#) (No. 26) to the Joint Standing Committee on Treaties inquiry into IA-CEPA (2019)
- [Report on Indonesia Mining Sector Diagnostic](#), World Bank (2018)
- [Ten ways to boost Indonesia's energy sector in a postpandemic world](#), McKinsey Global Institute (2020)

CHAPTER 11:

Preview of forthcoming sectors

The Blueprint will be updated to explore the import (not just export) opportunities Indonesia presents for Australian firms, delving into the two-way relationship and how Australia can benefit Indonesia, and examining a broader range of sectors and industries. Here we provide a brief overview of three sectors to be explored in Blueprint 2.0.

Preview of forthcoming sectors

Financial services

Indonesia's financial services sector is relatively small with a significantly greater concentration of banks compared to non-bank financial institutions than other economies in the region. Among other things, this is due to a fragmented regulatory structure, a regulatory framework out of step with global best practice, and a lack of diversity in capital market products.⁹⁶ Indonesia's banking system has grown rapidly in recent years. Net interest margins are high relative to regional peers, although they have softened slightly in recent years. Measured by return on assets, banks are relatively profitable. Loan growth has eased in recent years but remains elevated at an annual compound average growth rate of 5.5% between 2016 and November 2020.

Nonetheless, challenges remain. In addition to the aforementioned issues affecting the size of the sector and the dominance of large banks, challenges lie in the volatility of the currency, a traditionally cautious monetary policy seeking to balance currency stability with investment stimulation, a depression in commodity prices (long the backbone of the Indonesian economy), deteriorating asset quality and rising non-performing loan (NPL) ratios (particularly in commodity-heavy sectors), and rising loan deposit ratios (LDRs). Challenges also arise from rising capital requirements, high competition for funding, a rapidly evolving regulatory landscape, the emergence of entrants with new technology, and meeting regulatory demand for more socially inclusive lending in a geographically fragmented island nation where lower income groups are often excluded by location as well as economically.⁹⁷

Indonesia's financial services sector has weathered the COVID-19 crisis relatively well, with Market Research's Business Monitor International (BMI) maintaining a positive outlook for the sector over the long term, despite the short-term fallout from the pandemic. Despite structural concerns, analysts such as BMI view Indonesia as a "future financial leader" in the region, with continued interest from overseas investors.⁹⁸

While S&P revised its rating outlook from stable to negative for three of Indonesia's largest banks (PT Bank Mandiri, BRI, and PT Bank Negara Indonesia) in April 2020 due to the COVID-19 outlook, the

ratings agency also affirmed issuer credit ratings on all Indonesian banks on the basis of the Indonesian banking sector's strong market positions, capital buffers, and profitability.

In late March 2021, Fitch announced it had maintained its BB+ score for the Indonesian banking sector's operating environment, based on expectations that an economic recovery will translate into a gradual improvement in the outlook for the sector in 2021. Fitch has argued Indonesia's larger banks are well placed to capitalise on the recovery given their financial resilience.⁹⁹

The Indonesian Government's response to the pandemic included measures to support the financial sector, including interest subsidies, placement of funds in banks, and credit guarantees for micro, small and medium enterprises as well as corporations.¹⁰⁰ Financial sector reform has been put on the Indonesian parliament's legislative priority list for 2021, however the detail on what proposed reforms will look like remains unknown.¹⁰¹

Opportunities for Australian businesses to trade and invest

A strong and emerging digital economy in Indonesia driven by the penetration of technologies, coupled with a growing middle class, presents opportunities for Australian fintech and the financial services industry more generally.

Raiz Investments is the first Australian fintech to be fully accredited by Indonesian regulators (the Financial Services Authority (OJK) and Bank Indonesia) to provide services to consumers. Raiz provides a simple way for users to save small amounts on a daily basis, and invest them in low cost mutual funds.

In the broader financial services sector beyond fintech, major players in the Australian banking sector are on the ground in the Indonesian market, although their activities are not as deep and extensive as they might be, leaving substantial room for both more competition from other Australian financial firms and a deeper engagement by those already operating in Indonesia.



Image credit: Shutterstock

It is important to note that of the major Australian players, only CBA provides full (including retail) banking services, with ANZ focusing on corporate and institutional banking services instead and Macquarie Capital Services providing investment services.

Given the geographic challenges of a dispersed population across a large archipelago, the regulatory burdens and dominance of large Indonesian banks, and the rise of non-bank digital payment platforms, there is little likelihood of Australian banks and other authorised deposit-taking institutions (ADIs) expanding their physical branches in Indonesia. Furthermore, the evolution of digital payments infrastructures is enabling consumers without bank accounts to make online purchases, suggesting some unbanked Indonesians will simply leapfrog the traditional banking system entirely. That said, given the large number of unbanked Indonesian customers, there is still an

opportunity to provide retail banking services to these customers, however it should be noted that given Indonesia's preference for domestic banks, much of this customer base (those who do not avoid banking altogether and move straight to non-bank digital payment structures) is likely to be snapped up by Indonesian banks.

The greater opportunity therefore lies in digital payment platforms and fintech, corporate and investment banking, and various digital and online services and products.

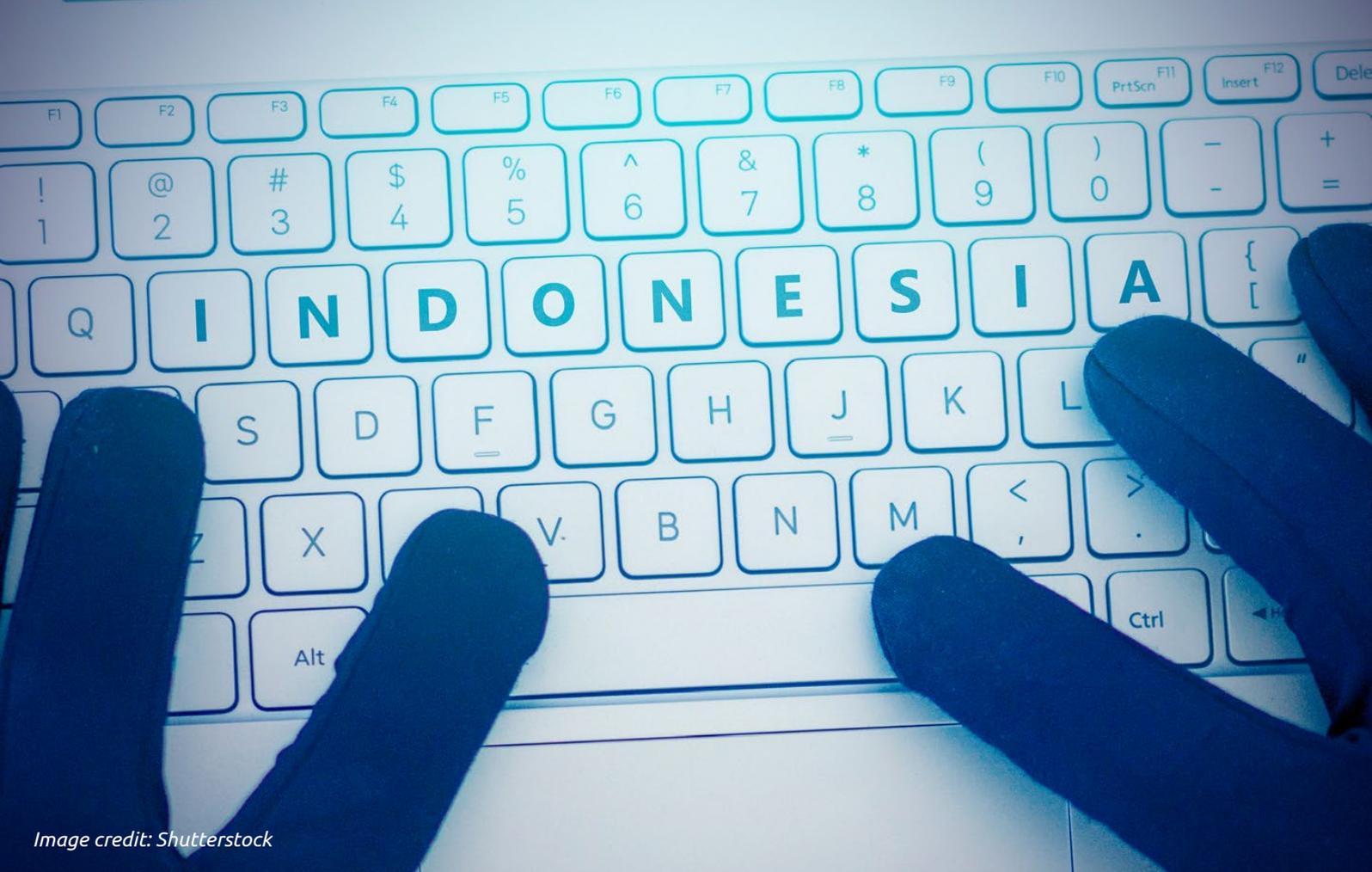


Image credit: Shutterstock

Cybersecurity and the cyber sector

Indonesia's digital innovation sector is rapidly evolving. Indonesia is the fourth most populous country in the world with over 270 million people,¹⁰² with 175.4 million Indonesians using the internet,¹⁰³ 167.3 million using mobile internet,¹⁰⁴ 183 million using smartphones,¹⁰⁵ and 160 million using social media.¹⁰⁶ Indonesia is one of the largest and most diverse start-up ecosystems in ASEAN, propelled by 175.4 million internet users and the largest economy in ASEAN. Within the broader economy, Google, Temasek and Bain & Co measure Indonesia's "internet economy" at \$59 billion in 2019, having grown at an average rate of 49% per annum since 2015, and forecast to reach \$166 billion by 2025.¹⁰⁷ This equates to approximately 45% of the estimated total for ASEAN.¹⁰⁸ Cybersecurity is crucial for the future growth of this industry, particularly in terms of safeguarding the intellectual property of start-ups engaging in innovation. Start-up innovation is critical to growing "digital economy" industries like ecommerce, digital health, fintech and edtech. It is also a modernising force in traditional sectors like banking, telecommunications, agriculture, logistics, retail, resources, and public services. Indonesia has over 2,000 digital start-ups, and 4 tech unicorns and 1 tech decacorn as at May 2020. This is supported by a wide range of accelerator/incubator programs, co-working spaces, and venture capital investors.

Digital trust is key to the development of these sectors, and reflects the level of confidence users have in the ability of technology to enable high-functioning digital goods, services and processes. Digital trust is developed through providing secure, private, safe, and reliable access to and interaction with technology. Cybersecurity is a fundamental pillar of digital trust, presenting an opportunity for Australian cybersecurity providers.

Indonesia has been particularly prone to cyber-attacks, and with 232 million cyber-attacks in 2018, it is one of the world's most targeted countries (AustCyber 2020). This vulnerability has increased as many traditional industries modernise their operations and new digital industries such as ecommerce and digital health and education have experienced rapid growth. Over the past 5 years, the prevailing approach in government and business has shifted from avoiding public acknowledgment of cybersecurity risks, to seeing cyber resilience as part of national critical infrastructure. This includes the establishment of a national cybersecurity agency, BSSN, in January 2018. BSSN is creating standards for industry to support the resilience of Indonesian business and government.

Opportunities for Australian businesses to trade and invest

Indonesia's cybersecurity spend is forecast to grow by US\$1 billion by 2025 (AustCyber 2020). Indonesian companies are increasingly investing in security as digitised business practices become more widespread. 57% of Indonesian organisations are investing more in security, compared to 25% reporting no changes and 18% either investing less or unsure (PwC Global State of Information Security Survey 2017).

Indonesia is one of a small number of countries with whom Australia has concluded a government-to-government Memorandum of Understanding (MoU) on cybersecurity cooperation. This agreement was signed between Indonesia and Australia in September 2018 and witnessed by President Widodo and Prime Minister Morrison. It sets a foundation for a strong cooperative relationship across the official, academic, business and skill development aspects of cybersecurity resilience.

In addition, IA-CEPA includes a number of opportunities for Australian cybersecurity providers: supporting service exports for Australian businesses; allowing Australian training providers to offer Australian qualifications and some Indonesian qualifications in areas such as engineering, technical skills and business administration (such as the Cyber Security Certificate IV); and a transfer of knowledge on policy, regulation and corporate capability.

Australia has a noticeable comparative advantage in the global market for cybersecurity goods and services, spending approximately \$4 billion with another \$1.53 billion forecast over the next 10 years, out of a total global spend on cybersecurity of US\$250 billion by 2025 (AustCyber 2020).

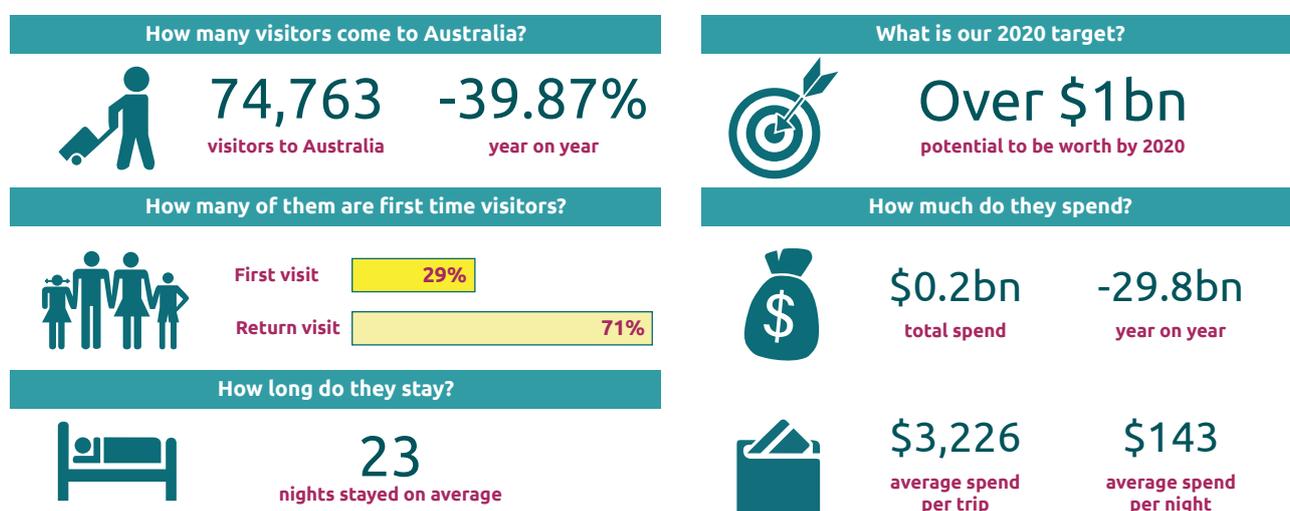
Tourism

Australia's inbound tourism industry

In 2019 Indonesia was Australia's 12th largest inbound market for visitor arrivals, our 14th largest market for total visitor spend and 14th largest market for visitor nights.¹⁰⁹ The broadest set of Australian destinations and most frequent

connections are from Denpasar, while Jakarta has both the highest concentration of consumers able to afford to travel and strong connectivity, with direct and non-stop services to Australia.¹¹⁰

Figure 11.1: Tourism Australia 'Indonesian visitors to Australia for holiday purposes 2019'





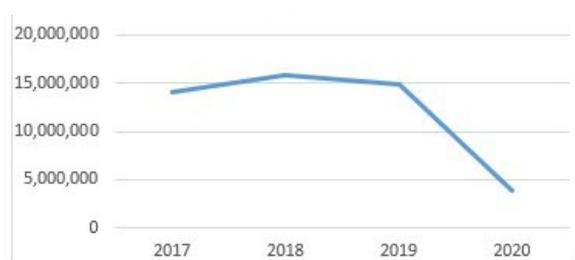
Opportunities for Australian businesses to trade and invest in Indonesia-to-Australia tourism

The speed at which inbound Indonesian tourism to Australia returns to its pre-COVID-19 levels will depend on the availability and efficacy of vaccines in 2021 and boosters in the year ahead, and successful pandemic containment efforts, including in the face of future variant strains. If growth in Indonesian living standards and the middle class returns to its pre-pandemic trajectory, there is an opportunity to capture a greater share of Indonesia's tourism market, particularly in areas of unique and/or comparative advantage, such as ecological/environmental and food tourism.

Indonesia's inbound tourism industry

While Indonesia's tourism sector has suffered dramatically in the COVID-19 pandemic, the fundamentals of the industry are strong, with a 3-year average of nearly 15 million foreign tourist visits per year prior to 2020 (Figure 11.2).¹¹¹ Indonesia's popularity with Australian tourists is well known, with 1.2 million Australian tourist arrivals in Bali alone in 2019, with personal spending (excluding education) of \$3.84 billion across Indonesia.¹¹² Prior to the COVID-19 crisis Indonesia was the most popular destination for Australians after New Zealand.¹¹³

Figure 11.2: Number of foreign tourist visits to Indonesia



Source: BPS (Statistics Indonesia)

While the COVID-19 pandemic has obviously had an impact on international tourism, with both international border closures and a fall in many Australian households' incomes with the rise in Australian unemployment, the Reserve Bank of Australia has suggested that pent-up demand is likely to provide an initial boost to service exports and Australian outbound tourism when international borders reopen. However, the pandemic is projected to have lingering negative impacts on demand for travel and long-haul airline capacity.¹¹⁴

Opportunities for Australian businesses to trade and invest in Indonesia's tourism industry

IA-CEPA includes a number of reforms benefiting Australians looking to invest in Indonesia's tourism industry. IA-CEPA allows for up to 100% Australian ownership in Indonesian three, four and five-star hotels and resorts, with no geographic limits. Australian investors can own up to 67% of most other accommodation, restaurants, cafes and bars, as well as tour operator services and tourism consultancy services. Australian ownership of marinas is capped at 51%.

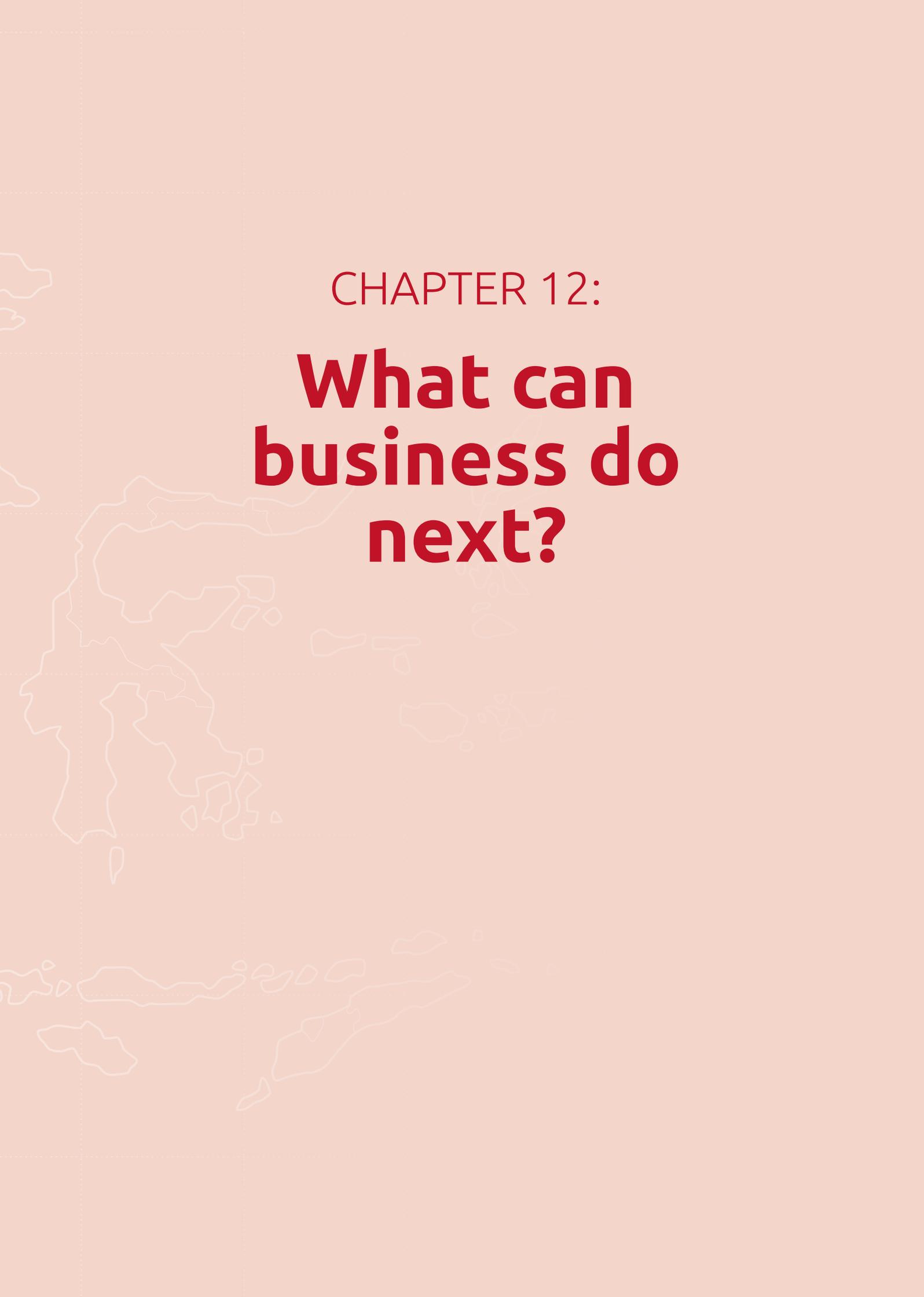
Newly appointed Tourism Minister Sandiaga Salahuddin Uno has also pledged to revive tourism in 2021, committing to develop five "super priority" tourism destinations sometimes known as the "five new Balis". The priority destinations are Lake Toba in Northern Sumatra, Borobudur in Central Java, Labuan Bajo in East Nusa Tenggara, Mandalika in West Nusa Tenggara and Likupang in North Sulawesi. These could present opportunities for potential Australian investment. To achieve this goal, the Indonesian Government is easing some restrictive regulations and promoting Special Economic Zones to attract foreign investment.



PART 3

The path ahead





CHAPTER 12:

What can business do next?



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This chapter briefly sets out a call to action to business, specifically in areas that require actions either independent of government or where business will need to take the lead or when actions have to be refined in practical ways to suit business interests, capabilities and comparative advantage.

Action 1: Act on the opportunities identified

The Blueprint has identified trade and investment opportunities across targeted sectors. Businesses should use this information to take the following action:

Action 1.1: learn more about the current developments and projected trends in your sector.

Action 1.2: assess the viability of entering the Indonesian market for your business.

Action 1.3: before you enter the market, get professional advice on specific aspects of doing business in Indonesia from reputable business advisory firms on issues that will affect your operations, such as labour laws, taxation, business permits, legal issues, local content requirements, etc.

Action 1.4: invest in developing “Indonesia capabilities”, namely by building teams to have cross-cultural competencies essential to influence and negotiate business outcomes.

Action 1.5: consider joining a bilateral business council (see www.aibc.com.au).

Action 1.6: since the IA-CEPA signing, Indonesia has taken steps to improve the investment climate through the Job Creation Law and changes to investment coordination - business should take these into account alongside IA-CEPA.

Action 2: Team up to achieve common goals

Many businesses active in Indonesia believe that a “Team Australia” approach would assist business in succeeding in the market. This could include:

Action 2.1: industry associations reaching out to members to highlight the opportunities in their sector – relevant government agencies could provide inputs if needed.

Action 2.2: the Asia Business Action Group (ABAG), the newly created group of the Asia Taskforce, has agreed to develop and lead a pilot “Team Australia” approach to explore its application and efficacy as a coherent and integrated strategy to gain traction in the Blueprint’s identified areas of opportunity.

Action 2.3: in addition to federal government initiatives (DFAT and Austrade work closely with state/territory trade and investment teams to ensure programs are coordinated to deliver value for Australian business), evaluate the breadth of state/territory activities focused on supporting your business to succeed in Indonesia.

Action 2.4: Indonesia has been one of the most popular destinations for Australian undergraduates using the New Colombo Plan (NCP) to study and undertake internships in the Indo-Pacific region. NCP Scholars can provide a ready resource for businesses looking for new employees with in-country experience, connections to future leaders and knowledge of Indonesia.

Action 3: Partner with Indonesia

Australian businesses shouldn’t only consider Indonesia as a market, but as a partner with whom to jointly flourish. IA-CEPA seeks to build an “economic powerhouse” in which business in the two countries collaborate to develop and supply a range of goods and services into regional and global markets, drawing on their respective strengths, primary produce, raw materials, value-add products and other resources. We encourage businesses to:

Action 3.1: consider how new business opportunities identified in the Blueprint could be realised through a “powerhouse” arrangement

similar to how Australian agricultural exports like wheat is being used to manufacture Indonesian products for neighbouring markets.

Action 3.2: when exploring business collaboration through a “powerhouse arrangement”, seek to leverage Indonesia’s successful sectors such as the food and beverage industry and target areas considered priority investment sectors, including health, energy and education.



Appendices



Appendix 1: Doing business with Indonesia

While the commercial environment is changing rapidly, especially due to ecommerce, some deeply embedded cultural practices still need to be understood and accepted to make a success of the new opportunities.

Key points

- **A business strategy that recognises the economic, cultural and geographic diversity of the country is crucial to operating there.**
- **Researching freight and logistics options and understanding the associated costs is a key component of exporting goods to Indonesia.**
- **Businesses should research Indonesian culture and tastes to make sure that their product or service will appeal to local tastes and other requirements.**
- **Australians should consider the impact of age, gender, education and marital status on the formation of personal and commercial relationships in Indonesia.**
- **Strong community engagement can help ensure that local people identify with the business and have an interest in protecting its operations.**

Developing an Indonesia strategy

Australian businesses will need to develop a comprehensive strategy to navigate Indonesia's business environment. This also involves understanding Indonesian culture, business etiquette, laws and regulations to operate in the country effectively. While many Indonesian businesspeople are quite comfortable with western business practices, it nevertheless remains important to appreciate local practices. Although these points will be quite familiar to Australian businesspeople who have visited Indonesia, the information provided here simply aims to reiterate some of those practices for newer entrants.

For further information on doing business in Indonesia see the Asialink Business [Indonesia Country Starter Pack](#).

Just as many Australian businesses developed China market strategies in recent years to deal with the economic, cultural and geographic diversity of that country, the introduction of the IA-CEPA trade deal has reinforced the need for the same strategies in similarly diverse Indonesia. To begin thinking strategically about selling products or services, Australian businesses need to consider five key questions:

1. What and where is my market?

Indonesia is a large and complex market with more than 270 million people, 6,000 inhabited islands and a rapidly growing middle class. Businesses should undertake research to identify specific target markets for their goods or services and

appropriate commercial partners. Effective market research is essential when identifying these market opportunities and appropriate commercial partners. It is important to select an adviser who is familiar with the local market and Indonesia's cultural and contextual subtleties. This focus box below provides an introduction to some sources of advice.



Image credit: Shutterstock

Focus: Advisers: Identifying market opportunities and local business partners

Many businesses will seek external advice when examining market opportunities and local commercial partners. It is important to select an adviser who is familiar with the local market and Indonesia's cultural and contextual subtleties.

Asialink Business is Australia's National Centre for Asia Capability and can provide large, small and medium organisations with extensive market research and practical training programs on the Indonesian market, ecommerce, export opportunities and doing business in Indonesia. To learn more about their services contact [Asialink Business](#).

Austrade supports individual businesses to understand the market, to identify and introduce businesses to partners, end users and other important stakeholders. Austrade's operations team in Indonesia have great expertise, with established networks in Indonesia. To learn more about their services contact [Austrade's offices in Indonesia](#) or visit their [website](#).

Export Council of Australia (ECA) supports Australian businesses to grow internationally by developing international business skills; conducting international market research; helping to break down barriers to trade; building global networks; and informing Australian trade policy. To learn more about their services contact the [Export Council of Australia](#).

State and territory government trade and investment agencies and offices provide services to support Australian businesses exporting to Indonesia. While the range of services differ between the states, support may include grant funding, in-country support and opportunity identification.

Private providers can assist companies to identify market opportunities and commercial partners in Indonesia, both based in Australia and Indonesia.



Image credit: Shutterstock

2. How can I distribute my product or service?

A key development is that Indonesians are increasingly shopping online. So businesses selling goods to the country should familiarise themselves with ecommerce platforms relevant to their business. They should also undertake research into networks of retailers and potential distributors to find the right partners to get their goods on the shelf in Indonesian retail outlets.

Businesses need to establish reliable supply chains and ensure that they can get their product to customers within promised timeframes. Researching freight and logistics options and understanding the associated costs is a key component of exporting goods to Indonesia where logistics infrastructure is still developing. Austrade provides a [useful freight and logistics checklist](#) for businesses considering export.¹¹⁵

Service exporters should also be aware of the ways they can adapt their services to online delivery, which can dramatically reduce costs.

As the earlier chapters of this Blueprint have already outlined, Australia now has a hierarchy of three trade agreements with Indonesia with the new IA-CEPA and the Regional Comprehensive Economic Partnership agreements bracketing the older ASEAN-Australia-New Zealand Free Trade Agreement. Businesses should be aware of different opportunities in these three agreements.

3. What do I need to do to adapt my product or service to the Indonesian market?

Australian businesses should undertake research into Indonesian culture and tastes to make sure that their product or service will appeal to local tastes and other requirements. It is important to note that for certain products halal certification or endorsement by an appropriate religious authority is required. See *Cultural considerations for doing business in Indonesia* below for further information.

4. How can I build brand awareness for my product or service in Indonesia?

Australian businesses should undertake research to understand how similar products or services have built brand awareness in Indonesia. Developing a digital strategy to take advantage of social media marketing should form a part of most strategies.

5. What are the potential barriers to my success in Indonesia?

Australian businesses should seek professional advice and conduct adequate due diligence to understand any legal, regulatory or other barriers that could prevent them succeeding in the Indonesian market. See the box below for more information.



Image credit: Shutterstock

Seeking regulatory and legal guidance

Indonesia's regulatory environment is complex. The country has a civil law legal system, which combines legislation and customary law. Indonesian law and legal procedures are derived from the 1945 constitution, National Assembly Decisions (TAP MPR), laws (undang-undang) and government regulation in lieu of law (peraturan pemerintah pengganti undang-undang), government regulation (peraturan pemerintah), presidential regulation (peraturan presiden) and regional regulation (peraturan daerah). Presidential instructions (instruksi presiden), ministerial decrees (keputusan menteri) and administrative circulars (surat edaran) as well as technical guidelines constitute key components in implementing the legal instruments.

Conflicts between laws are relatively common and regulations themselves are subject to change. Conflicting laws can create confusion and pose compliance challenges for Australian organisations operating in Indonesia. To navigate regulatory challenges, Australian organisations should seek legal and regulatory advice from an appropriate professional services firm. Contact [Austrade's offices in Indonesia](#) for advice to help find tax and legal advisers in Indonesia.

Australian businesses selling products and services must also comply with Indonesia's consumer protection laws. For more information about Indonesia's consumer protection laws see the [ASEAN Committee on Consumer Protection](#) website. The [Indonesian National Consumer Protection Agency](#) (Badan Perlindungan Konsumen Nasional (BPKN)) receives consumer complaints and is the authority responsible for providing recommendations on Indonesia's consumer protection laws.

More information about Indonesia's legislation and legal system is available on pages 11 and 45–47 of the [Indonesia Country Starter Pack](#).



Image credit: Shutterstock

Cultural considerations for doing business in Indonesia

This section provides practical information on key cultural considerations for doing business. Understanding cultural norms is important to building strong relationships with Indonesian partners, conducting successful business meetings and negotiations, and effectively marketing Australian products and services.

Indonesian language, culture and business etiquette

Language

Bahasa Indonesia is the official language. While English is commonly spoken at a business level, when dealing with the government or doing business outside of the major cities, translation and interpretation services may be required.

Interpreters can be useful during business visits, particularly for discussing technical aspects of a business plan or operation. If you plan to establish a long-term business in Indonesia, you should consider having your own interpreter or bilingual staff. In practice, it is very common for Australian businesses to bring a local consultant with them whose role is to help build connections and facilitate business meetings, rather than the traditional back and forward interpretation. Learning some basic Indonesian phrases is not difficult and will also go a long way in showing business contacts your interest in the market and likely help build rapport. Some useful phrases can be found on page 66 of the [Indonesia Country Starter Pack](#).

Culture

Indonesia is a country of diverse cultures, ethnicities and religions. The population of more than 270 million is spread across the archipelago of about 6,000 inhabited islands and uses more than 300 different languages.

The country has about 300 different ethnic groups. While 41% of the population is Javanese, other ethnic groups include the Sudanese, Malay, Batak, Madurese and Betawi people.¹¹⁶

Indonesia is a majority Muslim country, with more than 85% of the population identifying as Muslim. Christians make up 8%, 2% are Hindu, 0.7% are Buddhist and 0.05% are Confucian.¹¹⁷ People in different regions of Indonesia tend to have their own unique languages and cultural and religious practices. Despite these differences, the importance

of family, social harmony, keeping face and religion are key shared cultural norms across the country.

- **Family** is the main social group in Indonesia. Being part of a family provides security and responsibilities such as an expectation that children will respect and care for their elders.
- **Social harmony** is a key cultural philosophy. Working in harmony and avoiding displays of aggression or rudeness is seen as crucial for productivity. As a result, Indonesians will often use indirect and courteous forms of communication, even where they disagree with you, to avoid conflict.
- **Keeping face** is an embedded concept in Indonesian culture. Keeping face refers to when a person's reputation, dignity and honour has been preserved. Indonesians will avoid inappropriate behaviour and criticising peers to prevent individuals from losing face.
- **Religion** is an important aspect of Indonesian life. Most Indonesians identify with a religion and will often ask people about their faith when they meet them.¹¹⁸

Many of these Indonesian cultural norms are also evident in other Asian countries.

Business etiquette

Some basic, yet important tenets, of Indonesian business etiquette to keep in mind include the following:

- Avoid using the left hand, which is considered unclean, to pass or receive anything, including business cards and gifts.
- If you are being introduced to several people, it is customary to introduce yourself to the eldest member of the group.
- Companies may not respond very quickly to emails, particularly if the sender is not well known to them.
- WhatsApp is the communication platform of choice for most Indonesians.
- Business relationships are based on trust and familiarity. Personal contacts and networks are therefore important in making business deals.
- Indonesians place great emphasis on age, and respect towards elders is expected.
- Avoid touching or reaching over a person's head, especially that of an older person.

- Watch body language. Hands on hips or folded arms can signify anger or arrogance. The soles of the feet or shoes should never be turned upwards or towards someone you are meeting with.

Building relationships with Indonesians

Business relationships

Indonesia, like many countries in our region, is a relationship-driven market. Investing in strong business relationships can assist when gaining credit, in procurement and contracting, and in determining the timeliness of bureaucratic processes. Investing in business relationships often involves large amounts of face-to-face time with a person of similar age and status, with a strong emphasis on loyalty and trustworthiness within the relationship. Australian businesses should explicitly consider the impact of age, gender, education and marital status on the formation of personal and commercial relationships in Indonesia.

Patron/client relationships

As in many high context cultures, business in Indonesia is nested in a range of other contexts. As in the family, business relations are often defined by a broader hierarchy, which may be based on regional or religious ties, or on personal obligation. This means that in business, loyalties are often intensely personal and revolve around the boss, rather than the organisation itself, and can tend towards patron/client relationships.

Foreign businesses should understand the potential impact of patron/client relations on the probity and integrity of their business processes and manage the associated risks. For further information see the Asia Taskforce's *Guidance on managing bribery and corruption*.

Environmental, social and governance factors

The concept of group welfare is very influential in Indonesian culture, and foreign businesses that seek to contribute to the welfare of those living and working in their immediate neighbourhood stand to gain significant advantages.

Strong community engagement can help ensure that local people identify with the business and have an interest in protecting its operations. Australian businesses are generally well regarded for the emphasis that they place on corporate social responsibility initiatives.

Negotiations and meetings

Negotiations

Negotiations can be lengthy. Often it takes several meetings before coming to an agreement. Initial meetings generally serve to make acquaintances.

When negotiating, be respectful, polite and humble and show appreciation for what the other party says and does. Try not to act in haste or to rush others and do not issue ultimatums. Indonesians put a premium on not making each other lose face, so avoid criticising the individuals during a negotiation. Note that your use of tone and language can make or break a relationship. The role of intermediaries or "facilitators" is common in Indonesia and can often be invaluable for progressing negotiations behind the scenes and managing disagreements to avoid any public loss of face.

Business meetings

Accept that appointments may be hard to secure and be aware your hosts' schedules can change at short notice, especially those of government officials. The Indonesian concept of "jam karet" or rubber time reflects a cultural understanding that time is a flexible commodity. As a result, arriving late or waiting for meetings to start are common experiences in Indonesia. While this can be simply due to traffic congestion in a place such as Jakarta, it also reflects a more relaxed approach to meeting times. So, depending on the location, it may only be possible to aim for about three appointments in a day.

How to conduct a business meeting

State early in the conversation who you are or who you represent and why you are visiting and wanting to do business with them. For instance, if the appointment was given as a result of personal relationships, talk a little about that relationship at first before going into business details. PowerPoint and short video clips are most effective in meetings. When giving presentations, assess your audience's language proficiency in advance and use jargon-free English. It is recommended to keep words to a minimum and maximise visual displays in PowerPoint presentations.



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Useful resources

[Indonesia Country Starter Pack](#): Asialink Business

[Export markets – Indonesia](#): Austrade

[Getting Ready to go Global](#): Export Council of Australia

[Cultural Atlas](#): SBS Australia

[Guidance on managing bribery and corruption](#): Asia Taskforce

[Doing Business in Indonesia Guide](#): UK Institute of Export and International Trade

Appendix 2: A checklist for SME exporters

Indonesia is geographically close, with a relatively large population, and growing wealth. It's a market with many opportunities. But the regulatory system requires careful planning.

Key points

- **Research whether a successful Australian product actually fills a need or must be repackaged to meet the requirements of Indonesian customers.**
- **Partners or agents will probably be necessary to fit into a market where retailers tend not to deal directly with a product producer.**
- **Check whether the product can get preferable entry treatment under the various trade agreements available for exporting to Indonesia.**

Introduction

Doing business internationally can be challenging. And it is usually more complex than doing business domestically. There are intricate processes relating to certifications, logistics and finance when making international transactions. Moreover, foreign markets, such as Indonesia, can have very different administrative and legal systems to Australia, and an unfamiliar business and consumer culture. As an exporter, you will need to be aware of these.

This chapter outlines some steps to exporting that small and medium enterprises can consider if they are examining entering the Indonesian market with exports.

1. Check if you're export ready

It is important to assess whether you're geared up for international trade. There are some basic questions you need to ask yourself. Does your business have sound foundations, including in terms of finances? Do you have a competitive offering? Does this foreign venture align with your business growth strategy? Is your firm fully committed to it?

Will your operation be able to meet the additional demand? Does your firm have the knowledge and skills required to export?

Useful links

- <https://www.austrade.gov.au/Australian/Export/Guide-to-exporting/International-Readiness-Indicator>
- <https://www.austrade.gov.au/Australian/Export/Guide-to-exporting/Financing-your-export-business>

2. Determine market demand

You may have a product or service that has sold well in Australia or elsewhere. But will it translate in Indonesia? You need to conduct research to determine this. Who will be your target customers in Indonesia? Are you able to segment your customers? What are their characteristics? Would they need or want your product? How might you convince them? Can they afford your offering?

Useful links

- <https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Indonesia/Market-profile>
- <https://www.dfat.gov.au/trade/agreements/in-force/iacepa/outcomes-documents/Pages/outcomes-goods>

3. Prepare an export plan

Preparing an export plan will help you clarify what is required to succeed and maximise profit. It then provides a guide as you progress through the process. An export plan can take different forms. However, it must contain key information including a description of your product and services, as well as your value-added offering. It must contain analysis of the market, and how you intend to penetrate the market.

Useful links

- <https://business.gov.au/Products-and-services/Importing-and-exporting/Develop-your-export-strategy>
- http://www.business.nsw.gov.au/_data/assets/pdf_file/0004/241771/Export-Accelerator-toolkit.pdf

4. Find a path to the market

There are numerous ways to export. For example, you can sell directly, or use a distributor or sales agent. There are pros and cons to each. Whatever approach you take, make sure you consider its effectiveness and efficiency. It is important to understand how the relevant industry operates in Indonesia, including by mapping out the ecosystem around your customer. In the Indonesian retail sector, for example, stores normally do not deal directly with producers. Rather, they go through wholesalers or intermediaries. You will therefore need to find the right partner for you.

Useful links

- <https://bsd-kadin.org>
- <https://www.austrade.gov.au/landingpads/global/mode-of-entry>

5. Explore ecommerce

Ecommerce is the buying and selling of goods or services online. Transactions involve the digital transfer of data and money. It is crucial that you establish an online presence accessible to Indonesians so your business establishes legitimacy, and Indonesian customers are informed of your offering, and can purchase your product.



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Beyond your own website, it may be prudent to sell through ecommerce marketplaces, such as Shopee, Tokopedia, Bukalapak and Lazada. These marketplaces have been growing rapidly in Indonesia, with loyal customers, and can help you with marketing and logistics.

Useful links

- <https://www.austrade.gov.au/ecommerce-guide/>
- <https://www.austrade.gov.au/australian/export/export-markets/countries-and-economies/indonesia/industries/ecommerce-to-indonesia>
- https://www.mckinsey.com/spContent/digital_archipelago/index.html

6. Consider your logistics options

Knowing how you can transport your product to its intended destination in a secure, speedy and inexpensive manner will build customer satisfaction and improve your competitiveness. Therefore, we suggest you find the right freight forwarder or third-party logistics provider. As they provide different levels of service, it is important to shop around. They can be particularly helpful in completing the necessary paperwork.

Useful links

- <https://www.export.org.au/business-resources/trade-topics/logistics>

7. Arrange the required finance

In international trade, most transactions (80–90% of trade) would not take place without trade finance, such as letters of credit and trade credit insurance. Trade finance and the financial institutions that provide them facilitate trust and reduce risks between importers and exporters. For example, an exporter would prefer that importers pay upfront before shipment, but the importer would rather pay only when it takes custody of the goods. To solve this dilemma, their respective banks play an intermediary role. The importer's bank issues a letter of credit, which guarantees payment once proof of shipment is provided, such as in the form of bill of lading.

Useful links

- <https://www.exportfinance.gov.au>
- <https://www.austrade.gov.au/Australian/Export/Guide-to-exporting/Getting-paid>

8. Get familiar with Incoterms

Incoterms are standardised terminologies developed by the International Chamber of Commerce to ensure there is a common understanding of responsibilities between the buyer and seller. Incoterms are required in filling out purchase orders, shipping labels, certificates of origin, and other documentations. Below are the Incoterms:

RULES FOR ANY MODES OF TRANSPORT

EXW	Ex Works
FCA	Free Carrier
CPT	Carriage Paid To
CIP	Carriage and Insurance Paid To
DAP	Delivered at Place
DPU	Delivered at Place Unloaded
DDP	Delivered Duty Paid

RULES FOR SEA AND INLAND WATERWAY TRANSPORT

AS	Free Alongside Ship
FOB	Free On Board
CFR	Cost and Freight
CIF	Cost Insurance and Freight

Useful links

- <https://iccwbo.org/publication/incoterms-2020-introduction/>

9. Identify pre-export clearances

Depending on the product you are exporting, you may need to secure prior clearances from relevant Australian Government agencies and organisations. For example, if you are seeking to export fresh food, such as meat and plant products, you will need to complete an export registration form to be submitted to the Commonwealth Department of Agriculture. The process will involve an audit of your production premises. These are intended to ensure that Australia's reputation as a safe and reliable exporter is maintained. In any case, for some countries, such as Indonesia, there are agreed protocols and they do require such certification from the relevant Australian body.

Useful links

- <https://www.agriculture.gov.au/export/from-australia>
- <https://info.australia.gov.au/information-and-services/business-and-industry/trade-import-and-export/import-and-export>



10. Protect your brand/labelling requirements

You've worked hard to develop your brand and technology, so you don't want others to steal it. Make sure you register your intellectual property with the relevant government agency in Australia and Indonesia. While it may cost, it may be prudent to obtain legal services to make sure it is done properly. There are differences in the labelling requirements of Australia and Indonesia. It is important that you meet those in your target market, including listing of ingredients and having it properly translated to the local language.

Useful links

- <https://www.ipaustralia.gov.au/>
- <https://jdih.pom.go.id>
- https://www.wipo.int/directory/en/details.jsp?country_code=ID

11. Be customs prepared

You could get everything right in the exporting process, but if you miss one detail in your paperwork, the customs or quarantine officials in the importing country could stop your goods from going any further. Whether your goods are prohibited or delayed entry, it will be a costly situation if that happens. One way to avoid it is for you to describe your goods clearly in line with the importing country's tariff classification. Check whether that good can benefit from preferential treatment under a free trade agreement – Australia has a number of FTAs involving Indonesia. Where possible investigate whether you can secure an 'advance ruling' for your product. This will remove some uncertainty when your good is inspected on arrival.

Useful links

- <https://ftaportal.dfat.gov.au/>
- <https://www.kbri-canberra.go.id/en/>
- <https://www.trademinister.gov.au/minister/simon-birmingham/media-release/australias-free-trade-agreement-indonesia-provide-export-boost>

Other considerations

It is important to note that there are other methods of entering foreign markets. These include licensing, joint ventures and greenfield investments.

Licensing gives permission for a foreign company to use your intellectual property (e.g. brand or technology) for a specific period of time under defined conditions. You are paid a fee for the use of the intellectual property, for example, by the volume of sales. The benefit of licensing is that it involves minimum investment upfront. With **joint ventures**, you can enter a foreign market by partnering with a local entity. This allows for the sharing of risks and costs, with the key benefit being the local company knows the market and relevant government regulations. **Greenfield investments** involve setting up a subsidiary in the foreign market from scratch. This usually requires investing and establishing manufacturing, marketing and distribution operations in the foreign market. You maintain full control of the business.

Whatever path you take, we suggest obtaining advice from professionals to minimise costly mistakes.

Useful link

- <https://www.austrade.gov.au/LandingPads/global/business-structures>



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