

Indonesia Now

Insights and Opportunities

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Australian Government
Australian Trade Commission



Austrade: an international agency with private sector focus



- We have 82 offices in 48 countries, with 45 of those offices in 15 markets in Asia.
- 60% of our overseas staff are based in Asia.
- More than 400 of our staff have one or more Asian languages.
- Two-thirds of our overseas staff and senior executives have private sector experience.

Our great strength is our sustained on-the-ground presence in offshore markets

- We identify opportunities in market
- We can interpret the business climate and local commercial practice, and provide language support as well
- We can brief you in-depth on the market and the companies involved
- We can refer you to potential customers in market
- We can develop a visit/contact program for you
- We can set up, and direct you to your appointments
- We can provide *ongoing* in market assistance to assist in establishing your business presence

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Indonesia: A changing of the guard

New Indonesian Government

President

- Joko Widodo
- Coalition is a minority in parliament

Cabinet

- Combination of political figures and professionals
- Anti-corruption watchdog (KPK) vetted candidates in advance

Trade Minister

- Rachmat Gobel
- Japanese trained businessman

Agricultural Minister

- Amran Sulaiman
- Closely tied to Vice President Jusuf Kalla

Foreign Minister

- Retno Lestari
- A Diplomat

Energy and Minerals

- Energy and Minerals Resources Minister Sudirman Said
- Extensive SOE background

Priorities for the new Administration

- Fuel Subsidies
- Restoring growth trajectory to 7% plus
- Progress on infrastructure and human capital
- Reducing bureaucracy and regulation
- Making the Palace and Cabinet an effective functioning entity

Implications for Business

- Early fundamental change in direction unlikely
- Will take time (6 months?) for new administrative arrangements to trickle through
 - Could disrupt existing processes
- Passage of government's legislative agenda a challenge
- Mood of optimism, given business background of leadership team, but depends on execution
 - And note bipartisan agreement during the presidential campaign on themes inclined to economic nationalism

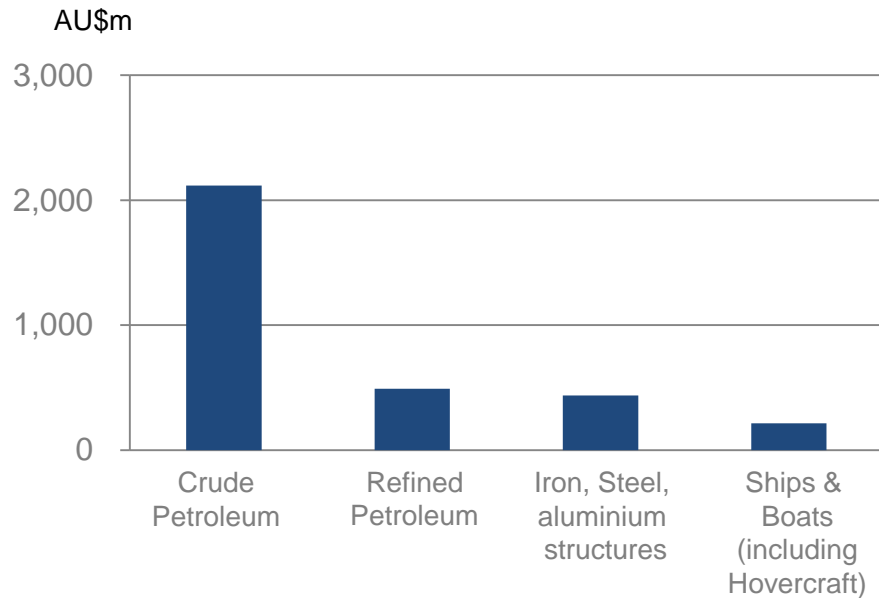


Key Market Dimensions

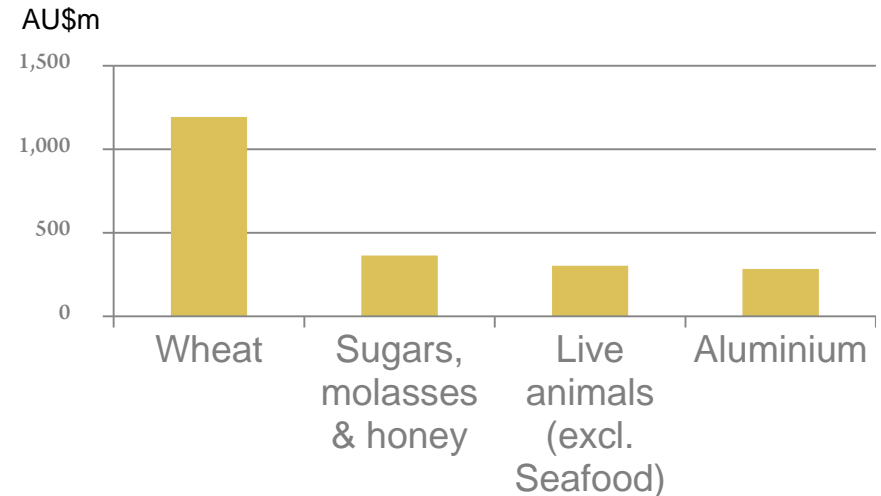
Bilateral trade can be increased and diversified

- Indonesia is Australia's 12th largest trading partner
- 2012 two-way trade in goods **AU\$11.1b**

Major Indonesian goods exports to Australia (2012-13)



Major Australian goods exports to Indonesia (2012-13)



Australian FDI rapidly growing from a small base



Challenge misconception, see opportunity

MYTH #1
The Indonesian economy is unstable

Indonesia had the lowest volatility in economic growth when compared to OECD and BRIC countries.

MYTH #2
Economic growth centres limited to Jakarta

The fastest growing urban centres are cities with more than 2 million people such as Medan, Bandung, Bogor and Surabaya.

MYTH #3
Indonesia follows export-driven model for growth

The main drivers of growth are domestic consumption and services.

MYTH #4
Resources are the economy's main driver

Indonesia's economy is becoming more advanced, so its large endowments of natural resources are no longer the sole driver of economic development.

MYTH #5
Gains in industry output are due to an expanding workforce

Productivity gains have mainly come from labour productivity improvements within sectors, not simply from movement of labour to more productive work in new sectors

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Why Indonesia Now?

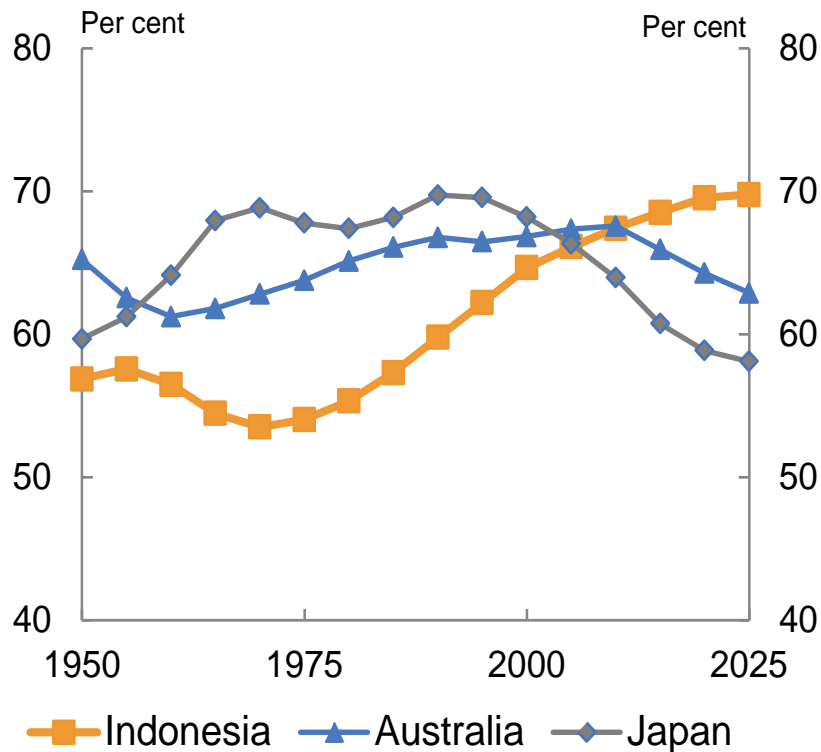
Indonesia is poised to take its place as one of the world's largest economies

Ranking	1980	2010	2030	2050
1	USA	USA	China	China
2	Japan	China	USA	USA
3	Germany	Japan	India	India
4	France	India	Japan	Indonesia
5	Italy	Germany	Germany	Japan
6	Great Britain	Great Britain	Brazil	Brazil
7	Brazil	Russia	Indonesia	Great Britain
8	Mexico	France	Great Britain	France
9	India	Brazil	France	Germany
10	Canada	Italy	Mexico	Mexico
11	Spain	Mexico	Russia	Canada
12	China	Korea	Korea	Korea
13	Australia	Spain	Canada	Australia
14	Netherlands	Canada	Spain	Saudi Arabia
15	Poland	Indonesia	Italy	Malaysia
16	Saudi Arabia	Australia	Turkey	Russia
17	Argentina	Iran	Australia	Turkey
18	Iran	Turkey	Saudi Arabia	Spain
19	Indonesia	Taiwan	Iran	Nigeria
20	Turkey	Poland	Thailand	Iran

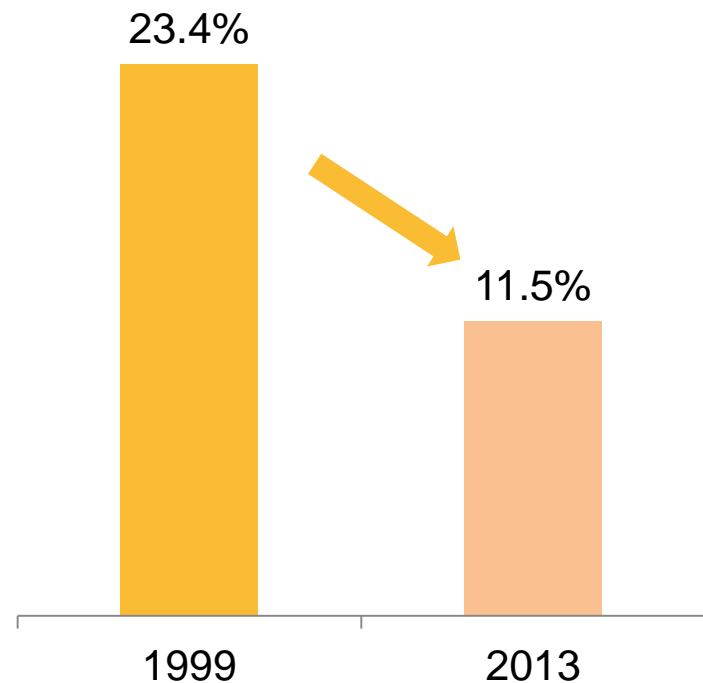


Growing levels of wealth are complemented by favourable demographics...

Growth in working-age population

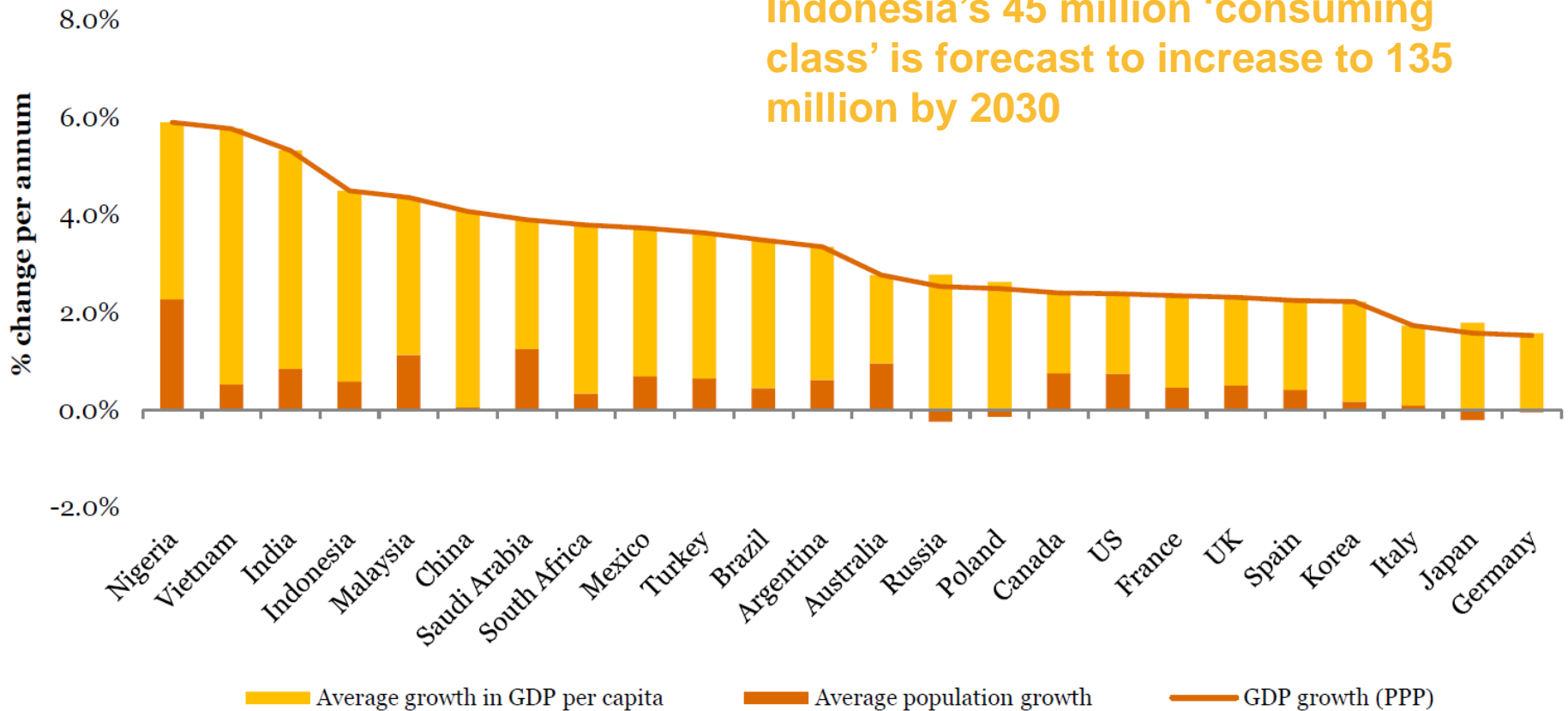


Falling national poverty rates



...and the rise of the new Asian consumer in Indonesia

Indonesia's 45 million 'consuming class' is forecast to increase to 135 million by 2030



Consumption drives growth



- 60% of GDP is derived from domestic demand
- Per capita income approaching \$4000
- Rapidly growing and youthful population
- Dominated by private sector players
- Australia under represented
- Opportunity to link to regional value chains

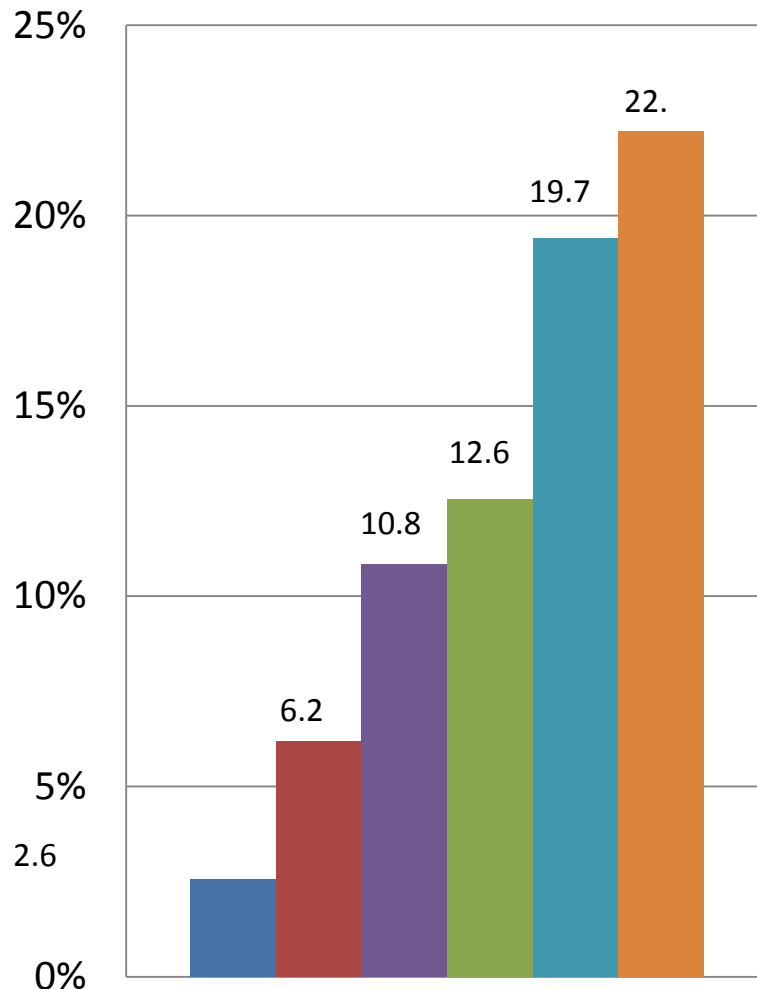
Spending on services is increasing rapidly



- Higher education
- Vocational education and training
- Financial services
- ICT and telecommunications
- Tourism, recreation and leisure

- Excellent fit with Australian capability
- Embedded manufacturing opportunities

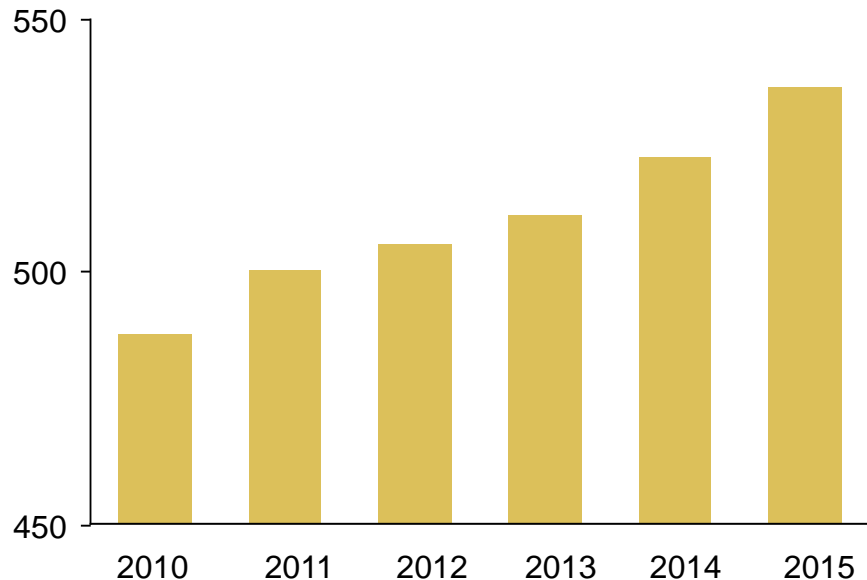
Indonesian service imports experiencing high compound annual growth



- Business Travel
- Personal Travel (including education travel)
- Financial Services
- Insurance
- Other Business Services
- Personal, Cultural and Recreational

Potential for deeper collaboration in Agribusiness

Indonesian Beef & Veal Consumption and Demand Growth



Capitalise on complementary comparative advantages



- Access to cheap, high-quality feed
- Labour costs advantage
- Establish manufacturing base



- Vast areas of grazing land
- Cattle breeding expertise

Relax market constraints

Improve efficiencies in beef production

Expand the market beyond individual borders



Firm Level Prescriptions

Doing business in Indonesia – key steps

Market Research

- Industry Reports
- Briefings
- Advisory firms

Learn what to expect

- Relationships
- Flexible timing
- Impediments

Identify pretexts to market visit

- Conferences, exhibitions
- Missions
- Solo visits

Join relevant organisations

- AIBC
- Asia Link

Identify business partners

- Customers
- Distributors
- JV Partners

Build in-market network

- Attendance at significant events
- Regular personal contact

Australian Business Engagement in 2013-14

- Telstra/Telkom JV
- Funds Management Engagement
- Austrade's ASEAN skills mission
- Indonesia Investment Forum in Melbourne (VP visit)
- Australian Culinary Trails
- Ozmine 2014
- Outreach programs to the provinces (Education)
- Engagement with stakeholders (AIBC - Australia Indonesia Business Council, IABC - Indonesia Australia Business Council, BKPM – Indonesia Investment Coordinating Board)

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Coming soon:
The ASEAN
Economic
Community

2015: The ASEAN Economic Community

- Viewing ASEAN as one integrated market is compelling - 600 million (young) people accounting for US\$1.8 trillion in GDP.
- ASEAN is also part of the broader East Asian trend of a booming middle class, increasingly discerning consumer behaviour, and heavy demand for infrastructure investment and related services.
- An ASEAN Economic Community will ultimately make it easier to do business in the region by providing greater certainty and consistency in through harmonization of regulatory frameworks.

ASEAN integration: Australian positioning

- Plays to strength -- Australia is good at what ASEAN needs
 - Services into infrastructure development (\$60B per annum)
 - Education into human capital development (avg 6~ 8 yrs schooling)
 - Food & agri into supply, safety and security requirements
- Australia recognised as a credible partner in ASEAN development
- Proximity & equity – goes beyond single issue politics
 - Bali bombings and wave of public support from Indonesia
 - Australia a ‘friend-in-need’ during Aceh-centric tsunami and Typhoon Yolanda

Key issues for business to consider

- Determine whether the best value proposition is in targeting specific ASEAN markets as opposed to regional approach:
 - often a select few markets offer the most valuable commercial opportunities.
 - a plan for Singapore will be very different from a plan for Malaysia, or Burma.
- Despite the harmonisation of regulation:
 - the relationship-centric culture of doing business in ASEAN remains.
 - be alert to ongoing corruption challenges.

Key issues for business to consider

- Business needs to consider what resources they are willing to invest in ASEAN to have success in longer term:
 - importance of a regional hub office, but think beyond simply Singapore – other high-growth markets need capacity building for longer term success.
 - there is increasing competition throughout ASEAN from North East Asia, and Japan MNCs has been firmly entrenched in the region for decades.
 - be strategic about in-market partners, local staff and relationship building.

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Thank You