

Barton Deakin Brief: Indonesia-Australia Economic Relationship

29 January 2016

Today the Minister for Resources, Energy and Northern Australia, the Hon Josh Frydenberg MP, met with Indonesia's Minister for Energy and Mineral Resources, His Excellency Sudirman Said in Melbourne. They will participate in bilateral meetings to discuss cooperation in the resources sector, particularly in relation to energy supply and renewable and clean energy. Indonesia is one of Australia's major trading partners.

This Barton Deakin Brief outlines the current state of the Indonesia-Australia economic relationship.

Indonesia-Australia Trade

As Australia's closest geographical neighbour with a population of 252.2 million people (the fourth largest population in the world), Indonesia is a significant market for Australian goods and services. Australia's principal exports to Indonesia are primary agricultural goods including wheat, live animals and sugar, molasses, honey and beef. The total export trade to Indonesia from Australia is worth \$5,628 million per year (based on 2014/15 figures) or 2.2 per cent of Australia's total exports, making Indonesia Australia 10th largest export destination.

Australia imports approximately \$5,340 million worth of goods from Indonesia per year. Major imports are primarily in the resources sector, including crude petroleum and refined petroleum, as well as heating and cooling equipment and specialised machinery and mechanical parts. Indonesia is Australia's 10th largest source of imports. It is Australia's 12th largest total goods trade partner (exports and imports combined), accounting for 2.1 per cent of Australia's terms of trade.

Indonesia has similar trading partners to Australia, with both nations counting Japan and China as their top two trading partners.

Australian Business Opportunities

Australian investment in Indonesia is relatively small, equating to approximately \$8,126 million, likely reflecting Indonesia's status as a developing economy. However, Indonesia is an increasingly attractive export market for Australian goods and services due its large population and growing middle class.

Agriculture

Indonesia's agriculture industry is one of its most important sources of income, contributing 42 per cent of the nation's total employment and 13.5 per cent of its gross domestic product (GDP). While the country aims to be self-sufficient in food production, its population size has made this a very difficult goal. Australia already has strong export ties to Indonesia, particularly in wheat and live cattle (more than 50 per cent of Australia's live cattle are exported to Indonesia).



Australia's close proximity, quality produce and reliable supply chains continue to make it very competitive in the Indonesian agricultural import market. Austrade has noted the potential for growth in the areas of livestock and meat, and complementary products such as breeding and dairy feed, and slaughter and abattoir services and equipment. There are also opportunities for Australian grain exporters and horticultural services like seed management, pest management and plantation technology and services.

There has been some controversy around Australia's live export trade to Indonesia. In July 2015 the Indonesian Government announced that it would downgrade the number of permits issued for live cattle imports from Australia for the July to September quarter from 250,000 to 50,000. However, this was subsequently eased. In January 2015 it was announced that a quota of 200,000 was being adopted for the January quarter. To read the media release from the Minister for Agriculture, click [here](#).

This controversy followed the Australian Government's suspension of live exports to Indonesia in 2011 after video footage was released depicting animal abuses in Indonesian abattoirs. This suspension was lifted after two months with the introduction new guidelines.

Australian exporters should note the five per cent import tariff on boxed meat imposed by Indonesia, and a ten per cent value added tax on all beef products sold in the country.

Health Care and Aged Care

Indonesia has approximately 1,300 public hospitals and 800 private hospitals but the demand for health services is growing rapidly. The introduction of a new social security system in 2014 which included the introduction of universal health insurance has increased access for citizens, of whom approximately 26 per cent have private health insurance. Australian health care training professionals have opportunities to expand into the Indonesian market, in areas such as intensive care unit (ICU) short course training, midwifery, oncology and gerontology.

The population of Indonesians aged over 60 will continue to grow as healthcare improves, with the Indonesian Directorate General of Social Rehabilitation estimating that there will be 36 million by 2030. The increasing wealth of the middle class and limited aged care infrastructure presents opportunities for Australian firms, particularly in major cities. Areas likely to experience growth are the health and aged care educators, as well as service providers. Currently the majority of aged care facilities in Indonesia provide only social services and very limited complete nursing care or medical assistance, creating a market gap for Australian firms experienced in a more comprehensive model of aged care provision.

Aviation Services

With the introduction of the ASEAN Open Skies Agreement in 2015, a number of restrictions and barriers to entry have been removed for Australian air service providers seeking to expand into the South East Asian market, including Indonesia. In addition, the growth of the air service market has outpaced its current aviation workforce, and firms continue to recruit aircraft engineers, technicians and mechanics, air-traffic controllers and pilots.



Resources and Energy

Indonesia already has relatively developed resources and energy sectors, especially in petroleum exports. It is also a major exporter of minerals, coal and liquid natural gas. These natural resources continue to provide opportunities for Australian mining, engineering, technology and services firms, both in mining and exploration. Australian firms are also set to benefit from a skills shortage within the industry in Indonesia.

Coupled with this, the demand for energy within Indonesia will also continue to expand as its middle class population grows. In order to service this demand, exploration will increasingly become a priority of the Indonesian Government, to the benefit of Australian firms with exploration expertise. Currently, more than 40 ASX-listed companies have activities in Indonesia in the energy and resources sector.

Infrastructure

Indonesia has recently shown significant improvement in its national infrastructure, and opportunities for Australian firms exist as it continues this programme. Significant projects include airport developments in the wake of the ASEAN Open Skies Agreement, with many recent projects being co-ordinated with the state-owned airport corporation and the Directorate General of Airports. The Indonesian Government is also focusing on transport infrastructure, particularly roads. Local infrastructure firms often lack relevant expertise making the employment of Australian professionals for projects more appealing.

Australian operators are subject to relevant domestic licensing requirements administered by the Ministry of Public Works, Ministry of Energy and Mineral Resources, Ministry of Transportation and Ministry of Trade.

Information and Telecommunication Technology

While Indonesia has one of the slowest internet services in South East Asia, the e-commerce and e-health sectors continue to expand. Online shopping, particularly in fashion and electrical goods, is a major growth industry while the disposable income of Indonesians grows. In addition, cloud services and IT infrastructure are needed for telecommunication and the IT firms, many of which are partnering with international companies that possess the knowledge to establish well integrated systems.

To view the Department of Foreign Affairs and Trade website on the Australia-Indonesia Trade and Investment Framework, click [here](#).

Indonesia-Australia Diplomatic Overview

Indonesia is one of Australia's most significant regional relationships. Australia continues to pursue closer trade and investment ties with Indonesia, as well as increased co-operation in advancing its regional security and particularly counter-terrorism objectives. There has been a series of agreements between the two countries to promote these objectives, such as the [Agreement between the Republic of Indonesia and Australia on the Framework for Security Cooperation](#) (2006) and the [Joint Understanding on a Code of Conduct in Implementation of the Lombok Treaty](#) (2014).



In December 2015 the third [Australian-Indonesian Foreign and Defence Ministers 2 + 2 Dialogue](#) was held in Sydney. These formal talks involve the Ministers for Foreign Affairs and Defence from both countries and are intended to foster stronger defence and strategic co-operation.

In economic co-operation, Australia and Indonesia are both signatories to the [ASEA-Australia-New Zealand Free Trade Agreement](#). Indonesia has expressed interest in joining the twelve nations currently signatories to the [Trans-Pacific Partnership \(TPP\)](#), which includes Australia. The TPP is yet to enter into force. Both nations are currently in negotiation on the [Indonesian-Australia Comprehensive Economic Partnership Agreement](#).

To access the Barton Deakin Brief on the Conclusion of Trans-Pacific Partnership Negotiations, click [here](#).

Further information

To access the media release from the Minister for Resources, Energy and Northern Australia, click [here](#).

To access the Department of Foreign Affairs and Trade Indonesia-Australia factsheet click [here](#).

To access Austrade's Indonesia market profile, click [here](#).

Barton Deakin has published several Briefs detailing Australia's economic relationships with its major trading partners. To access the full list of Barton Deakin Economic Relationship Briefs, click [here](#).

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