The Jakarta Post

Potentials from Jakarta-Canberra deal

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The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) brings a significant tariff cut on export commodities between the two countries and offers various investment privileges. The agreement will also take bilateral economic ties between the countries to a new level as it provides a more market-oriented import regulation, compared to the current ASEAN-Australia-New Zealand Free Trade Agreement.

Stronger bilateral trade and investment ties are to be expected. The Indonesian government seeks to cut the trade deficit, which stood at US$1.3 billion last year, as well as secure investments from the neighboring country in order to boost and maintain a sustainable gross domestic product (GDP) growth.

From a domestic standpoint, the deal should open up bigger opportunities for local players especially in the textile, consumer goods and machinery industries. We can also benefit from the investment coming from the healthcare and technology industries.

The basic principle of the IA-CEPA is to create a win-win framework between the neighboring countries. This collaboration will be the first step for both countries toward becoming an economic powerhouse, and to contribute more to the global value chain to fulfill global demand. Indonesia is projected to be a manufacturing powerhouse by having the capacity to source raw materials and higher quality labor. It is forecast that total exports to Australia will continue to increase, as recent reports have stated that over 7,000 Indonesian products will enter Australia without tariffs.

In 2017, Australia imported $263 million in textiles from Indonesia. With the new deal reducing the current textile export tariff to 0 percent, Indonesian garment players can enjoy wider trading opportunities in the future. Indonesia is the fourth-biggest exporter of textiles to Australia, just below Vietnam ($271 million), India ($488 million) and Bangladesh ($640 million), which shows there is still room for growth.

The free trade deal with Australia will also play a crucial role in Indonesia's fast-moving consumer goods sector, whose players are seeking to diversify their export destinations. In 2017, Australia imported $1.4 billion of consumer goods from Indonesia. This trade deal will likely help Indonesian companies achieve an increased output and maintain market domination on consumer goods imports.

Approximately 10 percent of Australia's GDP has been generated from infrastructure industries and the government has committed more than $35 billion for current and future public infrastructure investments.

Our data also show that one of Australia's top imports in 2018 was machinery, mainly bulldozers and excavators. However, Indonesia only enjoyed 11.9 percent of the total market share, hence it would be an interesting expansion target for Indonesian players.

One of the key points in the IA-CEPA is the privilege given to Australian businesses to set up a stronger presence in Indonesia. Future investments are likely to happen in the healthcare sector, which currently sees a lack of trust in terms of local system and infrastructure. Australia's investments in the healthcare sector are expected to address the shortage in our health infrastructure — both medical equipment and resources, and to make up for the revenue lost from outbound medical tourism. Annually, over 500,000 Indonesian people travel overseas to seek medical treatment.

In the technology sector, Indonesia offers a dramatic growth in the start-up ecosystem due to the deeper penetration of the internet, smartphones and social media. To date, we have successfully produced four start-up unicorns which could be leveraged further through direct investment by Australia. Over the past five years, Indonesia's start-up investment has grown 68 times, reaching $1.4 billion in 2016, and jumping to $3 billion in the first eight months of 2017. Thus, the agreement opens wider opportunities for Australian investors to access Southeast Asia's biggest economy.

While there are lots of opportunities to capture, there are also things for Indonesian business owners to look out for resulting from the IA-CEPA. The most obvious element that must be considered is the inflow of new players entering the Indonesian market.

This agreement highly encourages Australian business owners to have a commercial presence in the country, which could saturate the domestic market with foreign products and services, and possibly dilute domestic players' share in the market.

Also, legal uncertainty and political dispute could result in an unfavorable outcome for Australian investment with Indonesia still considered a risky country in which to trade and invest due to the changing political factors as well as other legal complexities. With the presidential election scheduled for April 17, there is also competing discourse between economic nationalism and economic liberalism. The utmost priority for the government and the House of Representatives is to ensure that the rights of Indonesian companies and industry players will be protected after the new agreement has been enacted and come into force next year.

Although Australia poses a remarkable opportunity for growth, it is not the easiest market to enter. With the trade deal coming into force next year, there are some go-to-market strategy tips worth bearing in mind:

First, Indonesian players looking to enter Australia should work with on-boarding local distributors who possess the market knowledge and the network in the target industry. This will help to take measures on tackling market uncertainties, with the familiarity of the operation and familiarity of the product needs provided by the local insights.

Alternatively, any interested companies could opt for a joint venture setup with a local Australian player to speed up the business establishment process. This method should enable Indonesian entities to expand their presence to Australia without having to take many business risks due to the nature of the agreement.

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