

distressed asset sales and privatization of the state sector, although at a somewhat slower pace than originally anticipated. Liberalization of trade and economic activity continues to be implemented, including a program of decentralization of government functions to regional administrations, although inadequate funding is leading to doubts about a smooth transition. Moreover, there are serious concerns about police action intervening in the affairs of the Indonesia Bank Restructuring Agency (IBRA), which is delaying economic reforms through the sale of distressed assets. As this type of activity continues, Indonesia is having a difficult time attracting foreign investment. Increased security concerns are also challenging a smooth economic recovery by scaring off potential investment.

#### **Market Access Results in 2001**

- Canada improved its market share in wheat.
- The Canadian Embassy continued to press Indonesian customs authorities to improve transparency and eliminate a check price system that disadvantages some Canadian products.

#### **Canada's Market Access Priorities for 2002**

- Continue to maintain equitable access for Canadian wheat, especially in the face of competition from aggressive U.S. financing programs and subsidized EU wheat entering the Indonesian market.
- Ensure that Indonesia does not impose increased tariffs on soya beans and other agriculture products.
- Ensure that Indonesia's check price system does not disadvantage Canadian exporters.
- Monitor Indonesia's intention to implement a product labelling system and provide timely advice to Canadian exporters.
- Press the Indonesian authorities to offer the same types of exemptions for insurance companies under the new bankruptcy laws as those allowed for Indonesian banks.

#### **Investment**

While total Canadian FDI exceeds \$2.2 billion, the flow of new Canadian direct investment has dried up due to continued uncertainties about the future political and economic climate in Indonesia. In addition, the recent law on regional autonomy, which was implemented on January 1, 2001, has led to a "wait

and see" attitude amongst potential investors, who are awaiting a clearer understanding of the actually applied regulatory structure and its implications.

A number of Canadian resource companies have been actively planning major new investments in the mining and petroleum sectors but decisions to proceed with these investments are awaiting clarity on the political, economic and regulatory climate. The Embassy continues to monitor developments and make presentations on behalf of specific companies.

Canadian investors continue to face numerous challenges in accessing the Indonesian market, including a complex and non-transparent legal system, that does not provide an efficient or effective recourse for addressing commercial disputes. Indonesia's political bodies are making some effort to reform the judicial system. Business firms also continue to face time-consuming procedures in obtaining approvals for licences and permits required to implement their investment plans. A limited number of sectors are closed to all foreign investment, including freshwater fishing, forestry, public transportation, broadcasting, film making, telecommunications and medical clinics.

The new law on regional autonomy, implemented in January 2001, is a bold attempt by the Indonesian government to decentralize all aspects of the economy except monetary, defence, foreign policy and judicial matters. As a result, it is expected that investment approvals will no longer be dealt with at the national level. Decentralization is causing some initial confusion.

The Canadian government has long supported investment in Indonesia by placing advisors inside the Ministry of Investment/Investment Coordinating Board and other locations under the auspices of the Canada-Indonesia Business Development Office (CIBDO). This program has been extended for another term. Canadian investment is expected to increase once again as stability returns to the country and obstacles to investment security are removed.

#### **THAILAND**

##### **Overview**

Until recently, Thailand was one of the fastest-growing economies in the world. In July 1997, however, the economic crisis resulted in a 50% decline in the value of the Thai baht against the U.S. dollar, a change of