

INDONESIA

Overview

In 1999, the value of Canada's merchandise exports to Indonesia was \$528 million, and the total value of our imports \$865 million. With the recent formation of a new Government, Indonesia is expected to continue liberalization of its trade relations and to institute the International Monetary Fund's (IMF) economic reform program.

Market Access Results in 1999

- Canada maintained market share in wheat sales, despite the predatory subsidy policies of competing economies, particularly those of the United States.
- The Canadian Embassy continued to press Indonesia customs authorities to improve transparency.
- The Indonesian government implemented new regulations permitting greater foreign ownership of commercial banks. Foreign investors may now own up to 99 percent of a bank's shares.
- Non-food agricultural tariffs have been reduced.

Canada's Market Access Priorities for 2000

- maintain equitable access for Canadian wheat sales, especially in the face of aggressive U.S. wheat competition, market disruption caused by U.S. wheat aid and subsidised EU flour entering the Indonesian market;
- continue to encourage the Indonesian government to ensure that Canadian exporters do not face increased costs due to improper delays or unnecessary fees at Indonesian ports. Multilateral trade facilitation efforts (especially within APEC) can be of crucial assistance in this regard;
- closely monitor Indonesia's follow-through on commitments it has made under the IMF Program of Economic and Financial Reform and Restructuring; and
- monitor the development of AFTA negotiations and encourage ASEAN members to allow greater transparency, particularly regarding rules of origin.

Investment

Canadian direct investment in Indonesia fell slightly from \$2.0 billion in 1997 to \$1.9 billion in 1998. Indonesia has actively looked to foreign investment to assist in economic recovery from the recent economic crisis. Several new regulations were introduced in 1998 and 1999 to ease the entry of foreign firms and capital into the country and to ease the impact of the downturn in investment inflows.

Notwithstanding these changes, 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. Efforts have been made by way of a new laws on bankruptcy, anti-monopoly and fiduciary security, but a proper court system is necessary for implementation. Canadian firms continue to face time-consuming procedures and delays in obtaining approvals for licenses 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 and medical clinics.

Indonesia will implement a new law on regional autonomy in May of 2001. This law 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, investment approvals will no longer be dealt with at the national level, and therefore a number of questions have been raised as to the capacity of regional governments to deal with these matters. Decentralization may cause some initial confusion, but eventually foreign and domestic companies should find investments much easier to make.

The Canadian government has long supported investment to Indonesia by having advisors inside the Ministry of Investment/Investment Coordinating Board and other locations under the auspices of the Canada-Indonesia Business Development Office (CIBDO). These and other Canadian investment advisors in Indonesia are currently focussing their efforts on encouraging investment by the Canadian manufacturing sector that is consistent with Indonesia's interests in diversifying its economy away from a reliance on oil and gas. Canadian investment is expected to once again increase as stability returns to the country and obstacles to investment security are decreased.