

- The “check price” on which tariffs are assessed for Canadian apples was reduced to match that for competing U.S.-source products.
- Equal certification measures were obtained for Canadian meat bonemeal that allow access on par with Australia, New Zealand and the United States, the only other approved source countries.

Canada’s Market Access Priorities for 2003

- Ensure that Indonesia does not impose increased tariffs on soybeans and other agricultural products.
- Continue to ensure that Indonesia’s check price system does not disadvantage Canadian exporters.
- Monitor Indonesia’s intention with respect to implementing a product labelling system and provide timely advice to Canadian exporters.
- Press for reform of Indonesia’s corporate bankruptcy laws to require ministerial approval for bankruptcy declarations against all financial institutions.
- Lobby the Indonesian government to establish clear interconnect regulations in the telecommunications industry. The lack of transparent regulation has slowed growth, impeding Canadian telecom exporters’ access to the market.

Investment

With a population of over 220 million people, Indonesia offers a large and growing domestic market and a large workforce, diverse and abundant natural resources, reasonably modern telecommunications and other infrastructure, and a strategic location along some of the world’s major trade routes. If Indonesia continues to move toward implementing a sound policy framework and continues a strong commitment to reform, it should be able to take advantage of its fundamental economic strengths to restore investor confidence.

Unfortunately, investor confidence has remained depressed compared with levels in the 1990s, for a number of reasons. One reason may be excesses of capacity in certain sectors due to overly optimistic growth projections in the past. Another reason is that many existing domestic investors are prevented, by their ongoing debt-restructuring activities, from being able to consider much new investment. A third reason may be the general global downturn in FDI

activities following recent stock market retrenchments and concerns about recessions in many countries. In addition to these factors, existing and potential investors cite concerns that include political uncertainty, unclear decentralization, uneven implementation of economic reforms, an unreliable judicial system, security issues and the treatment of existing investors.

Events in 2002, including the highly suspect (and ultimately overturned) bankruptcy declaration of a solvent Canadian-based insurance firm, continued to erode investor confidence in Indonesia. Furthermore, the foreign investment community has yet to see the government take strong actions to improve the investment climate and legal regime. One such action that is eagerly anticipated is reform of the corporate bankruptcy legislation. Such reform should offer the same level of protection for insurance companies as that currently given to banks, which require approval from the Minister of Finance to be declared bankrupt.

While total recorded Canadian direct investment exceeds \$2.2 billion, the flow of any new large scale Canadian direct investment has dried up due to continued uncertainties about the future political and economic climate in Indonesia. A number of Canadian resource companies had 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 representations on behalf of specific companies.

New small and medium-sized Canadian investments, which are more immune to political uncertainties, have continued, but at a slower pace than in the late 1990s. Within these new investments, there has also been a shift from manufacturing for the domestic market to manufacturing for export markets as a result of lower production costs.

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, but the reform is extremely slow. Businesses