



**ANZ Submission to the Joint Standing Committee on
Trade and Investment Growth Inquiry into Australia's Trade and
Investment Relationship with Indonesia**

February 2017

A. INTRODUCTION

1. ANZ welcomes the opportunity to contribute to the Joint Standing Committee on Trade and Investment Growth's inquiry into Australia's Trade and Investment Relationship with Indonesia.
2. We congratulate the Australian and Indonesian Governments on restarting negotiation of the Indonesia Australia Comprehensive Economic Partnership Agreement (IA-CEPA).
3. ANZ has been a supporter of stronger trade and investment ties with Indonesia through the IA-CEPA and the ASEAN Australia New Zealand Free Trade Agreement (AANZFTA). We believe that a stronger economic relationship is mutually beneficial for both countries.

B. ANZ IN THE REGION INDONESIA

4. ANZ has had a presence in Indonesia for more than 40 years. We have worked to assist the Indonesian government and community to meet their goals.
 - Over the last three years, we have helped raise nearly \$5bn in international bond markets for major government projects, specifically targeting the major ports of Pelindo 2 and Pelindo 3, as well as infrastructure, resources and export-oriented Indonesian companies.
 - We have facilitated over \$7bn of loans via the syndicated loans markets to Indonesian banks and other financial institutions, resources, telecommunications, power and other sectors.
 - In addition, we support our Institutional customers with a broad range of banking and finance facilities.
5. ANZ has announced that it is focusing its activities in Asia on corporate and institutional clients driven by trade and capital flows, particularly connecting those flows with Australia and New Zealand businesses.
6. In light of this strategy, ANZ will strengthen its institutional and corporate role in Indonesia, while reviewing investments in retail and wealth businesses in the region.¹ ANZ today is the majority owner of PT Bank ANZ.²
7. ANZ in Indonesia will aim to assist Indonesia in the resources, energy (including clean energy) and infrastructure sectors. We believe that there is a great demand for development capital and expertise in Indonesia. Australia has strengths in these areas and can make a significant contribution.

¹ On 31 October 2016, ANZ announced an agreement to sell its Retail and Wealth business in Singapore, Hong Kong, China, Taiwan and Indonesia to Singapore's DBS Bank.

² PT Bank ANZ has 25 branches in 10 Indonesian cities, serving institutional, commercial, private and retail customers.

C. OPPORTUNITIES FOR GROWTH

8. There is significant potential in closer Indonesia-Australia economic ties. Bilateral trade between Australia and Indonesia is relatively low given our proximity.
 - Indonesia is Australia's 12th largest trading partner for merchandise trade and Australia is Indonesia's 8th largest source of merchandise imports.³ Indonesia is Australia's 12th largest export market for services, comprising mainly education.
 - The stock of Indonesian investment in Australia is very low. Australian investments in Indonesia total approximately USD5 billion, which is small relative to other investment destinations.⁴
9. The existing trade agreement between Australia and Indonesia under the auspices of the AANZFTA has provided a modest boost to the Australia-Indonesia bilateral relationship.⁵ However, the commitments to liberalisation are consistent with, rather than extending significantly beyond, commitments made in the WTO. There is ample room for trade liberalisation between the two countries across all sectors.
10. The relative size of the Indonesian economy will create opportunities for trade and investment. The IMF projects that the Indonesian economy will grow to be around 63% of the size of the Australian economy by 2021 (from 56% in 2017).⁶ The number of middle class and affluent consumers in Indonesia is expected to reach 141 million people by 2020.⁷
11. ANZ believes that Indonesia will particularly benefit from capital deepening and investment. Achieving the government's goals to improve land and maritime infrastructure will require substantial investment. Large scale investment is also needed to realise the potential of Indonesian resources, energy and agribusiness development.
12. As two of the largest economies in the region, Australia and Indonesia can take advantage of our proximity and complementary economies. There are great benefits from working with each other to help create global supply chains and boost cross-border trade.
13. As part of this relationship, Australia should welcome Indonesian investment in Australia; for example, to secure beef supplies for a growing population and build relations between agriculture and food processing sectors in the two countries.

³ Department of Foreign Affairs and Trade (2016). Indonesia Factsheet. Accessed at <https://dfat.gov.au/trade/resources/Documents/indo.pdf>.

⁴ UNCTAD STAT. Data accessed at <http://unctadstat.unctad.org/EN/Index.html>

⁵ The agreement was signed in 2010.

⁶ IMF World Economic Outlook projections for Australia and Indonesia, constant price GDP in national currency, converted at current exchange rates, as at 10 Feb 2017.

⁷ BCG (2014). 'Indonesia's Rising Middle Class. Accessed at https://www.bcgperspectives.com/content/articles/center_consumer_customer_insight_consumer_products_indonesias_rising_middle_class_affluent_consumers/.

14. To explore these issues, ANZ contributed to the 2015 *Succeeding Together Report – Maximising the potential for joint opportunities between Australia and Indonesia*.⁸ The report noted that the Australia -Indonesia relationship takes place against continuing strong growth in ASEAN and the region. It argued that Australia and Indonesia have complementary comparative advantages that can form the basis for economic, trade and investment growth.
15. The report looked at opportunities including:
 - **Logistics:** Joint ventures between Australian and Indonesia companies to boost infrastructure investment, improve supply efficiency and promote opportunities to increase exports to third countries.
 - **Food processing:** Australian expertise to increase Indonesia capability to meet international standards, meet growing domestic demand and increase exports.
 - **Textiles and fashion:** A greater role for Australian investors and capabilities in Indonesia could contribute to strengthening the Indonesian textile industry.
16. There are likely to be particular opportunities for Australian services exporters in Indonesia. Services are a major contributor to the Australian economy, responsible for around 71% of GDP. Consumption of services increases generally with increases in per capita GDP.
 - Services exports are often overlooked as a contributor to export earnings. This particularly occurs because revenue derived from an offshore investment or presence (as is often the case for services exports such as financial services) is not included in Australian export statistics.⁹
 - According to a recent study services account for 41 per cent of Australia’s export earnings when measured in terms of total value-added, compared to 37 per cent for mining, and 23 per cent collectively for agriculture and manufacturing.¹⁰

⁸ The Australia-Indonesia Centre, ANZ and PWC, (2015). *Succeeding Together Report – Maximising the potential for joint opportunities between Australia and Indonesia*. The Australia Indonesia Centre. Accessed at <http://australiaindonesiacentre.org/projects/succeeding-together/>.

⁹ See discussion at page 68 in Productivity Commission (2015), *Barriers to Growth in Service Exports, Research Report*, Canberra. Accessed at www.pc.gov.au/inquiries/completed/service-exports/report/service-exports.pdf.

¹⁰ ANZ, PWC and Asialink Business . *Australia’s Jobs Future: The Rise of Asia and the Services Opportunity*. Asialink, Melbourne, 2015.

D. FINANCIAL SERVICES TRADE AND INVESTMENT

17. Reducing barriers to providing foreign financial services would assist the development of Indonesia. The OECD has noted that Indonesia has a high level of trade restrictiveness for financial services compared to other OECD members and other major economies.¹¹ Some issues for the financial services sector are noted below.
- *Labour mobility.* The availability of skilled personnel in Indonesia is limited. Reducing barriers to the use of skilled foreign personnel would benefit Indonesia by speeding up the development of the sector and promoting skills transfer.
 - *Data onshoring.* In 2012 the Indonesian government passed a regulation (PP 82/2012) requiring that services companies utilise only onshore data centres for processing. New guidelines were issued in December 2016, requiring an implementation date of October 2017. Data onshoring will impact on the ability of foreign service providers to compete in Indonesia.
 - *Equity levels.* Foreign equity caps are a barrier to banking in the ASEAN region. Ownership of Indonesian banks by foreign shareholders has been subject to greater regulation over the past five years.
18. A more liberal and open environment for trade and investment would benefit Indonesia and Australia. Some particular areas that might be considered as part of the 'mutual benefit' approach suggested in the *Succeeding Together Report* could be:
- *Targeted changes to promote skills transfer and development of the sector.* This might include liberalising nationality requirements for Boards of Directors; visa restrictions and authorisation requirements for expatriate senior managers, and recognition of Australian professional qualifications and certifications.
 - *An agreement to establish ongoing bilateral processes to reduce regulatory impediments to investment and development of the Indonesian financial services sector.* This could include a regular review of existing regulation and new liberalising commitments are considered.
 - *A commitment to a phased investment liberalisation.* This should be greater than existing arrangements under AANZFTA. It could provide for subsequent liberalisation given to other nations to be given to Australian operators (ie a most-favoured nation provision), and for minimum standards of treatment and protections for investors and investments.

¹¹ OECD (2014). (2014) Services Trade Restrictiveness Index (STRI): Financial Services. OECD Trade Policy Papers, OECD, Paris.

E. SUMMARY

19. The IA-CEPA negotiation is an important opportunity for trade and investment growth at a time when international trade volume growth is weak and the appetite for multilateral trade agreements had diminished.¹²
20. ANZ strongly supports the IA-CEPA negotiation process. It can deliver important economic benefits to Australia and Indonesia based on mutual interests and complementary economic strengths.

¹² WTO (2016). September 2016 Trade Statistics And Outlook. Document PRESS/779 27. Accessed at https://www.wto.org/english/news_e/pres16_e/pr779_e.htm.