

Indonesia - Poland: tapping a new potential



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The first visit by the foreign minister of Poland to Indonesia in 21 years had been an opportunity to revive the mutual interest in trade and investment. Indonesia is a dynamically developing middle-power, a thriving democracy and a strategically located country in the Indo-Pacific. It is a significant member of the G20 and the biggest economy among 10 members of the Association of Southeast Asian Nations (ASEAN). Having an economy expanding around 5% per year since 2008, it is a promising investment destination and one of the fastest growing emerging markets. Polish companies have already started to explore new opportunities there.

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On 25-27 November, 2018, prof. Jacek Czaputowicz paid an official visit to Jakarta to discuss bilateral political, economic and educational cooperation, regional security issues, as well as guidelines for cooperation in the UN Security Council in 2019, when Poland and Indonesia will jointly be non-permanent members of the council. Mr Czaputowicz talked to the Governour of Yogyakarta, Sri Sultan Hamengkubuwono X and Mr. Hoang Anh Tuan - the deputy secretary general of the Association of Southeast Asian Nations. He met with Polish and Indonesian businesspeople and attend the official opening of the Polish Trade and Investment Agency's (PAIH) foreign office in Jakarta which will be responsible for enhancing commercial ties between the two countries.¹

¹ <https://polandin.com/40170425/fm-opens-polish-investment-and-trade-agency-djakarta-office>

Asia-Pacific regional power

Indonesia has a GDP of 1,015.41 bn USD, expected to reach 1,175.08 bn USD in 2020.² It is also home to world's fourth largest population of almost 260 million people whose strength is its median age of 28.6 years, with a half of the population being below that age.³ By 2050, two thirds of Indonesians are expected to live in urban areas.⁴ Since 1999, the Southeast Asian giant has cut its poverty rate to 9,8% in 2018.⁵

Indonesia is a vibrant, diverse country which boasts a middle class of roughly 70 million people producing 55% of its GDP and being one of the main drivers of the economy thanks to a significant

² IMF – *World Economic Outlook Database, 2016*

³ 2016 estimates. <https://www.indonesia-investments.com/culture/population/item67?>

⁴ <https://www.indonesia-investments.com/culture/population/item67?>

⁵ <https://www.nordeatrade.com/en/explore-new-market/indonesia/economical-context>

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pick-up in consumption growth.⁶ It is also a country with abundant natural resources: thermal coal, tin, gold, silver, copper, nickel and bauxite, and a major liquid natural gas (LNG) exporter.⁷ What's critical also for the Polish business, Indonesia's key industries apart of petroleum and natural gas, are „textiles, apparel, footwear, mining, cement, chemical fertilizers, machinery, electronics, hardware, software, telecommunications, plywood, rubber, food, and tourism.”⁸ Among other factors favourable for investors are also political stability and low labour costs as well as prudent fiscal management.⁹ In fact, investment has already contributed around 30% to the country's GDP.

⁶ <https://www.worldbank.org/en/country/indonesia/overview>

⁷ KPMG ASEAN Business Guide – Indonesia. 2018 edition.

⁸ Business Guide Indonesia 2017; the Embassy of the Republic of Indonesia to Poland.

⁹ Business Guide Indonesia 2017; the Embassy of the Republic of Indonesia to Poland.

Indonesia has a remarkable record of facilitating the birth and development of Non-Aligned movement. Nowadays the country is working in various international fora. One of them is G20 where Indonesia is respected for its thoughtful dynamism. It's a force for change.¹⁰ For the future, Poland's ambition is to join the G20 as the Central and Eastern Europe does not have its representative in that grouping. Indonesia could be helpful in this endeavour. In the global GDP ranking, Poland occupies currently 23th place and it is working to be a regular visitor to the G20 summits.

Indonesia is also a member of a less known MIKTA network: a five-country cross-regional consultative and coordination platform that emerged on the margins of UN General Assembly in New York on September 25, 2013.

¹⁰ <https://thediplomat.com/2017/09/miktas-next-steps/>

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MIKTA is grouping Mexico, Indonesia, Korea, Turkey and Australia, every single of them are rising and resilient open economies with strong open domestic markets and demographic structure, as well as large democracies. MIKTA with its declared vision of amending global institutions and organizations, provides Indonesia with a useful and practical platform to voice its ideas, concerns and projects in this respect.

Opportunities for trade and investment

The investment of Polish business organizations in Indonesia had reached 20 million USD in 2017 which is 10 times more than in 2016.¹¹

The trade volume of the two countries has also seen an increase to 400-600 million USD.

However, the above figures don't show the whole picture as all exports and import between Poland and Indonesia go in Europe via Rotterdam-Antwerp-Bremen and in Asia via Singapore as there is no direct shipping lines.

The most prospective sectors for investments in Indonesia are energy, shipbuilding, road infrastructure, railway, food and agriculture, medicine, water waste management, and defense industry. Polish companies have been involved in 54 projects in Indonesia, and already very active in the country's energy sector.¹² In February 2018, Rafako SA got a contract to build two steam blocks of a total of 100 MW power on the island of Lombok. The

¹¹ <https://en.antaranews.com/news/120813/pol-and-considers-indonesia-as-important-partner-in-se-asia>

¹² <https://www.kemlu.go.id/en/berita/Pages/Indonesia-and-Poland-Focus-on-Concrete-Cooperation.aspx>

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Polish BGK Bank signed a EUR 80.8 million credit facility agreement with Indonesian PT Perusahaan Listrik Negara (Persero) to finance this investment. The loan is secured by KUKI's insurance policy who also issued a performance bond counter guarantee for the company. Rafako's contribution to the PLN 850 million investment is 35 percent. The project execution will last up to 39 months. This is the largest credit granted by BGK directly to a foreign company under the export support programme and the first in the Republic of Indonesia.¹³

But Poland is also interested in expanding its involvement into electrical mobility to be used in public transportation, medical equipment, and the mari-

time industry.¹⁴ The Indonesian food market may also offer significant opportunities for Polish exporters, in particular for producers of fruit and vegetables, dairy products, meat (beef) and cereal products. It's worth noting that in 2016, Poland received approval as an eligible country for exports of dairy products to Indonesia.¹⁵

“Wonderful Indonesia”

The tourism industry had received a boost after the launch of direct charter flights between Warsaw and Bali's main city of Denpasar in the summer of 2016.¹⁶ Now in plans are more regular flights. Already, about 30,000 Polish

¹³ <https://www.kuke.com.pl/en/news/kuke-covers-bgk-financed-indonesian-contract-of-rafako,32.html>

¹⁴

<https://en.antaranews.com/news/120813/poland-considers-indonesia-as-important-partner-in-se-asia>

¹⁵ Source: Business Guide Indonesia 2017; the Embassy of the Republic of Indonesia to Poland.

¹⁶ <https://jakartaglobe.id/news/direct-flights-between-warsaw-and-bali-planned-as-indonesia-poland-boost-ties/>

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tourists visited Indonesia last year for its culture and nature. Access to many tourism destinations is still bad and infrastructure remains a great obstacle to boosting tourism but the country works on this issue.

Indonesia is well known for its rich and vibrant culture, amazing temples, but also famous Java Jazz Festival. Next year it will take place on 1-3 March, and the Polish Radio Orchestra is going to take to the stage. The Jakarta International BNI Java Jazz Festival is among the most recognizable jazz and – generally – international live music feasts. For the first time it was held in 2005, and every year it attracts hundreds of renown artists from around the globe as well as more than 100 000 music lovers.

Academic cooperation

Since several years, there has been an increase in numbers of Asian students in Poland. Among them are around 300

students from Indonesia. Polish universities are aware of huge opportunities in academic cooperation between the two countries and some of them already started working together – also in the framework of Erasmus+ which includes exchanges of students and faculty. To name just a few, these are the University of Warsaw, Gdańsk University of Technology, Wrocław University of Economics, University of Opole. There are also Indonesian students at the AGH University of Science and Technology thanks to the Polish Government's „The Ignacy *Lukasiewicz Scholarship Programme*”.

On the other hand, the Indonesian Government has been funding the *Darmasiswa* program which provides opportunities for foreign (including Polish) students who wish to study at 50 available universities in Indonesia. Every year, several dozens of Polish students choose studying there.

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Political cooperation on the international stage

Seating in the UN Security Council as non-permanent members for 2 years, provides a unique opportunity for Poland and Indonesia to strengthen the political cooperation on global issues of mutual interest, including conflicts resolution. Indonesia watches carefully the developments between China and its neighbours in the South China Sea,¹⁷ while Poland – between Russia and Ukraine. There is some parallel and differences in the security environment and geopolitics of the two nations. Encircled by regional or global superpowers, Indonesia is in search of ways to build its own standing that transcends the very notion of the ‘middle

power’. In fact, it envisions itself as a major player in international affairs¹⁸.

Since the terrorist attacks in Bali, 2002, Indonesia has succeeded in developing one of the most effective counter-terrorism training centres in the world: the Jakarta Centre for Law Enforcement Cooperation (JCLEC), providing training to 20 000 officers from 70 nations.

¹⁹ For this very reason a Poland – Indonesia cooperation and exchange of experiences in this respect seem promising too.

Both Poland and Indonesia strongly support dialogue among religions. There were already three rounds of such dialogue between the representatives of both the countries. The forth one is planned for 2020 in Indonesia -

¹⁷ Report on South China Sea, Centre for International Relations, 2018

¹⁸ <http://www.thejakartapost.com/news/2013/10/24/mikta-what-does-it-want.html>

¹⁹ <http://theconversation.com/how-indonesias-counter-terrorism-force-has-become-a-model-for-the-region-97368>

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following 65th anniversary of bilateral diplomatic relations.

Deep interest in the work against global warming and climate change can be another field of bilateral cooperation. Poland has just won a global record to host the UN Conference of Partners (COP) for the third time (COP14 Poznan 2008, COP19 Warsaw 2013, COP24 Katowice 2018) and will concentrate on the issue of environment as it's also having serious problem with air pollution in its big cities. Indonesia is facing similar issues resulting from a rapid urbanization. To take just one city as an example: approximately 3.5 million cars and 14 million motorcycles ply its capital - Jakarta's streets each day.²⁰ There is also a difficult issue of deforestation with wildfires producing heavy smog periodically.

Being an EU member state, Poland can contribute to a positive, constructive outcome of negotiations for the Indonesia - European Union Comprehensive Economic Partnership Agreement as well as the EU-ASEAN free trade agreement (FTA). This is hoped to dramatically enlarge the trade and investment between the two sides. The EU and ASEAN started talks towards an FTA in 2007 and in July 2018, the two blocs agreed to restart the process. The prospective trade pact between the EU and Indonesia „is to facilitate trade and investments and address various issues, such as tariffs, non-tariff barriers to trade, trade in services and investment, trade aspects of public procurement, competition rules and intellectual property rights, as well as sustainable development.”²¹ One of key outstand-

²⁰<https://coconuts.co/jakarta/news/jakarta-ranks-1-week-index-cities-highest-air-pollution-levels/>

²¹ <http://www.europarl.europa.eu/legislative-train/theme-a-balanced-and-progressive-trade-policy-to-harness-globalisation/file-eu-indonesia-fta>

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ing issues is the production of palm oil and Poland could have a role in furthering Indonesia's efforts to promote sustainable palm oil products.²²

On the recent Foreign Minister Czaputowicz's visit, there was also discussion about a potential for more intensive and fruitful cooperation between Indonesia and the Visegrad Group (V4).²³ But Poland takes active part in multilateral dialogue forums between Europe and Asia, including the ASEM and the EU-ASEAN dialogue. However, Indonesia as ASEAN's key member can facilitate strengthening of Poland's ties with that leading regional organization in the Indo-Pacific, including mutual understanding of strategic challenges facing both sides. That said,

Poland's interests in Asia are mainly of an economic nature. ASEAN's members are highly interested in modern technologies, including ecology and agriculture. Poland is able to invest in the region in areas such as water management, waste management, ecological and renewable energy sources.²⁴

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²² <https://en.antaranews.com/news/120803/indonesia-receives-polish-foreign-ministers-visit-after-21-years>

²³ <https://www.kemlu.go.id/en/berita/Pages/Indonesia-and-Poland-Focus-on-Concrete-Cooperation.aspx>

²⁴ <https://www.gazetaprawna.pl/artykuly/1361863,jest-szansa-na-polskie-inwestycje-w-krajach-asean.html>

Centre for International Relations (CIR) is an independent, non-government analytical centre established in 1996 which deals with Polish foreign policy and the most important issues of international politics. CIR is active in research, education and publishing, organises conferences and meetings, and participates in international projects in collaboration with similar institutions in many countries. CIR creates a forum for debate and exchange of ideas in matters of international politics, relations between states and challenges in the global world. CIR's activities are addressed above all to local-government officials and to entrepreneurs, as well as to officials of the central administration, politicians, diplomats, political scientists and the media. In 2014, CIR was again recognised as one of the best think-tanks in East-Central Europe in the study "The Leading Public Policy Research Organisations in the World" conducted by the University of Pennsylvania.

