

PART FOUR: CONCLUSION & RECOMMENDATIONS

This report has provided an analysis of the investment climate in the Indonesian food and agriculture sector. It has given background on the sector as well as details of the regulatory environment and advice on the processes required to establish a corporate investment. The report attempts to prioritise prospective investment sectors.

The impression gained during extensive industry discussions, with both Australian and Indonesians executives, was that:

- Australia-Indonesia business relationships are in good shape. There is increasing awareness in Australia that the fundamentals in the Indonesian economy are getting back on track, and there is greater interest and capacity to work with Australian companies on a wider range of business models.
- Indonesia has been out of sync with Asian business cycles, particularly as a result of a slow recovery from the 1997/98 Asian economic crisis. In Australia there is a common perception that there have been limited investment opportunities available, but the business cycle in Indonesia appears now firmly on the upswing.
- High profile litigation involving foreign interests, particularly in the resources sector, has troubled international investors. The speed and resolve that the Indonesian Government shows to address these issues will be a touchstone for more general reform to encourage renewed foreign investment.
- Australia is an experienced exporter of agrifood products to Indonesia. Australian food products have a high reputation in Indonesia. Many Australian companies have been content to export to Indonesia, and remain to be convinced that an investment will yield a better return.

There is concern that this focus on merchandise trade, and low levels of supporting in-country investment could come at a cost to long-term market development. As the Reserve Bank of Australia Governor, Mr Ian McFarlane noted in March 2005, 'One of the major characteristics of the development of Asia over the past decade has been the increase in cross-border interdependence of production.'¹ Implicit in this cross border interdependence is the need to back export performance with strategic investments.

- The Australian food industry has been undergoing substantial rationalisation. It is a relatively mature market, built on a limited population base of some 20 million consumers. As a high per capita income market, however, with efficient production of factor inputs, the Australian agrifood sector has continued to remain attractive to foreign investors. The consolidation that has taken place in the market has generally tended to produce a higher degree of foreign ownership.

¹ Australian Financial Review, 31 March 2005.

- The Indonesian food market is perceived to be on the cusp of change, with recovery from the financial crisis of the late 1990s and the pressures of rapid population growth and increasing urbanisation. Strong consumer demand is fuelling new domestic investment and finance is readily available to build new manufacturing capacity.
- The most frequent comment received from Australian industry contacts was that Indonesian investment settings have to improve to attract new capital. Of particular concern are governance issues, legal and administrative unpredictability and a pervading sense of uncertainty.
- Australian federal and state governments and other agencies have devoted considerable resources to the analysis, support and development of food exports to Asia. These efforts have produced dividends. For Indonesia, key commercial messages are being masked by concerns with uncertainty as well as being overshadowed by competing markets for FDI.
- Government agencies in Indonesia and Australia have a critical role to play in disseminating information on business opportunities. But it is really businesspeople that make investment happen.
- We recommend support for **two-way visits by industry leaders in the key sectors** where increased Australian engagement is appropriate – and profitable for all.

These visits should include a blend of boardroom discussions as well as seminar presentations with appropriate media exposure, particularly concentrating on agricultural and food industry media outlets.

High-level visits deliver impact. Companies listen to industry leaders and are more likely to act as a result of an interaction at senior executive level. Putting business leaders together is a powerful catalyst. Small groups can be effective. Highly tailored small business missions where companies have specific business propositions to put on the table are effective.

Investment workshops: As a joint Australia/Indonesia initiative, sponsoring intensive investment workshops with attendees from both countries could provide a stimulus to new business activity.

Participants would need to be carefully selected and produce a business plan for their initiative. Importantly, specialised advisers should be in attendance. They would deliver presentations, but also facilitate partner-to-partner discussions, providing practical advice on the techniques required to create a sound investment relationship and offer innovative business models and solutions for SMEs.

A workshop of this nature would provide higher impact than a standard investment seminar. In a general format, opportunities are often presented without a detailed business case. The general seminar has its place as an awareness-raising exercise but a transactional format is more relevant to the Australia-Indonesia investment dynamic.

Regional Indonesia. Promotions by the various regions of Indonesia can produce powerful impact, particularly now that regional government agencies have increased powers in investment issues.

Indonesia offers a range of investment opportunities, but those opportunities will be evaluated by prospective investors relative to investment offerings available in other markets – principally elsewhere in Asia.

Indonesia must compete aggressively for that investment. International capital markets establish hierarchies of risk/reward – based on prospective rates of return on capital and security of investment. These largely determine investment flows.

There has been a recent run of good economic figures for Indonesia. Investors are encouraged, but are still largely adopting a ‘wait and see’ attitude – waiting to see whether the government of President Susilo Bambang Yudhoyono will implement the vital reforms to provide foreign investors with the degree of certainty to wager substantial investment funds.

Given the improved economic outlook and the new resolve of the government to address key issues that have concerned investors, it appears particularly timely now to take a fresh look at market opportunities and investment options in Indonesian agrifood industries.