



Indonesia-Japan Economic Partnership Agreement (IJEPA) and Its Effects on Indonesian and Japanese Economy

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**MINISTRY OF TRADE
THE REPUBLIK OF INDONESIA**

WHY an Economic Partnership Agreement (EPA) Between Indonesia & Japan?

- Indonesia & Japan are strategic partners;
- Japan & Indonesia have established a close economic relationship in a wide range of areas:
 - both sides have considerable mutual commercial interest;
 - there's complementary nature of trade & investment structure of Japan & Indonesia.
- IJEPA will:
 - strengthen and promote mutually beneficial economic ties between the two countries, and contribute to realizing multi-layered cooperation for capacity building in various ways;



WHY an Economic Partnership Agreement (EPA) Between Indonesia and Japan? (Cont.)

For Indonesia:

- Japan is the largest trading partner and is the number 1 destination for Indonesia's exports (appx. 20%) and the largest source of Indonesia's imports (appx. 14%) of goods;
- Japan is a major source of investment and development loans and assistance for Indonesia;

■ For Japan:

- Indonesia is one of the largest source of imports of Japan (ranks the 5th largest) and is also a significant export market for Japanese goods;





IJEPA: Interests of Indonesia

- IJEPA covers over 90% of goods (agriculture & industrial products) that Indonesia exports to Japan;
- IJEPA provides greater certainty of market access for Indonesian products and puts Indonesia on equal footing with competing countries that have concluded agreements with Japan;
- Indonesia stands to attract more business and infrastructure investment from Japan with IJEPA;





IJEPA: Interests of Indonesia (Cont.)

- **IJEPA will provide an improved capacity building for Indonesian producers, particularly will help improve the quality of Indonesian products in the domestic market and in international markets, in the areas such as:**
 - product standards and testing;
 - sanitary and health standards of food and beverages
 - training in manufacturing technology;
 - Etc.
- **IJEPA will help Indonesia to move ahead with necessary reforms to improve customs, tax administration and to provide for greater legal certainty, thus enhancing the business climate within Indonesia.**





IJEPA: Interests of Japan

- **IJEPA covers over 90% of goods (agriculture & industrial products) that Japan exports to Indonesia;**
- **Under IJEPA the business environment for Japanese firms investing in Indonesia will be improved, including those already present in the Indonesian domestic market;**
- **Japan has an interest in improved transparency of the implementation of IPR, customs procedures, competition policy, etc. in Indonesia.**





Three Pillars of the IJEPA

- **Liberalization:** reduction or removal of border and behind the border obstacles to trade (simplified licensing and business regulations);
- **Facilitation:** improved cooperation & transparency in various areas: customs procedures, competition policy, IPR, etc.;
- **Cooperation:** a distinctive feature of the EPA is that Japan and Indonesia have agreed to cooperate in many areas beyond just trade and that Japan will commit substantial resources to capacity-building activities for Indonesia.



IJEPA is Comprehensive and WTO plus

- Trade in Goods
- Rules of Origin
- Investment
- Improvement of Business Confidence
- Trade in Services
- Movement of Natural Persons
- Energy and Mineral Resources
- Customs Procedures
- IPR
- Competition Policy
- Cooperation and Capacity Building
- Government Procurement





IJEPA's Benefits Expected By Indonesia

- Tariffs of products that are included in IJEPA will be eliminated: fast track or gradual within 10-15 years;
- Improved market access for goods exported by Indonesia into Japan;
- Promote Indonesian supporting industries & strengthen their business partnership with Japanese enterprises operating in Indonesia;
- IJEPA provides equal footing with Indonesia's competitors that already have preferential access to the Japanese market;





Agricultural Products: IJEPA Expected Benefits to Indonesia

- **Fresh Bananas will be provided with free entry up to 1,000 metric tons of bananas per year for five years under the EPA tariff rate quota (TRQ);**
- **Fresh Pineapples will be provided with progressively increasing access to the Japanese market rising from 1,100 metric tons in year 1 to 2,150 metric tons in year 2, 3,200 metric tons in year 3 and 4,250 metric tons in year 4;**
- **The TRQ for these exports will be renegotiated in the 5th year of the EPA;**
- **Fresh mangos are granted duty free entry to the Japanese market with no limit in the first year of the agreement.**



Agricultural Products: IJEPA Expected Benefits to Indonesia (Cont.)

- **Agriculture products: palm oil, fish, shrimps, food & beverages, wood-based products;**
- **For certain agricultural & industrial products Japan will provide technical assistance in complying with non-tariff measures such as standard & sanitary and phyto-sanitary;**
- **Elimination of tariffs for wood products will encourage downstream development of wood-based industries in Indonesia.**



Agricultural Products: New Export Products Resulting from IJEPA

- **Prior to IJEPA, Indonesian certain agricultural products could not penetrate Japan's market because products were unable to meet requirements of Japanese product standards including health, sanitary, and phyto-sanitary standards;**
- **IJEPA Cooperation component will provide Indonesian farmers with technical assistance including thermal treatment techniques for eradication of fruit flies;**
- **Bananas, Pineapples and Mangos are examples of products that will benefit from the improved market access provided by the EPA.**





Manufactured Products: IJEPA Expected Benefits to Indonesia

Textiles and Clothing

- Indonesia's market share in Japan clothing market has steadily eroded from 3% in 1995 to 0.5% in 2005 in value and from 2.8% to 1.1% in volume;
- Indonesia may regain some market share as textiles and clothing tariffs are eliminated on a fast-track basis in IJEPA.
- Rules of origin for textiles and clothing are an important feature of the FTA;
- Japanese technical assistance and investment in yarn and fabric finishing will make a big difference in market access for Indonesian textile products.



Manufactured Products: Other Products Expected to Benefit from IJEPA

- Chemical products, including paints and dyes, are given “fast-track” liberalization and zero tariffs;
- Metal products such as processed aluminum, zinc and copper manufactures benefit with fast-track and zero tariffs (down from tariffs as high as 7% with many around 4-5% prior to IJEPA);
- A number of footwear products will benefit from tariff reductions from present high tariffs (average over 20%) over a period of 8-11 years and will become zero in the ninth year of IJEPA;



Manufactured Products: Other Products Expected to Benefit from IJEPA (cont.)

- Over time, IJEPA will provide processed agricultural goods with improved access: tariffs on fruit juices will be cut to zero over a 15 year period (from 23% to zero);
- Fruit juice shipments to Japan were \$1.43 million in 2005 and expected to increase with IJEPA liberalization;
- Sorbitol shipments to Japan will benefit from the further tariff reduction under IJEPA.



Manufactured Products: Other Products Expected Benefit from IJEPA (Cont.)



- Bedding and bed mattresses will also benefit along similar lines with MFN tariffs reduced to zero on the fast-track;
- This creates more certainty and invites further downstream investment in these sectors.





Services: Expected Benefits of IJEPA

- Services are an integral part of the IJEPA and freeing up importing and investing in services in the Indonesian market will provide substantial benefits to Japan;
- Manufacturing-related services will allow Japanese service providers to establish service centers for Japanese manufactured goods such as electronic and information technology equipment and will lead to technology transfer and training of Indonesian technicians;



Services: Expected Benefits of IJEPA (cont.)

- Financial, telecommunication and maritime transport services will attract Japanese service investment and will provide jobs for Indonesian workers. On the export side, Indonesian tourism services can benefit from Japanese consumption;
- Japan's commitments on labor services can benefit Indonesian service providers, such as care-givers and spa workers;
- Service regulations will become more transparent and fair under IJEPA and will benefit all entrants into the service industries in Indonesia—another WTO Plus Benefit of IJEPA.





Investment: Expected Benefits of IJEPA

- **Indonesia is among the Asian destinations for Japanese foreign direct investment (FDI);**
- **IJEPA will boost business confidence & provides greater legal certainty for Japanese investors;**
- **The new investment law will provide the new legal framework & transparency in Indonesia;**
- **Tax and Amended Customs Laws will be important in boosting confidence and providing foreign businesses a clearer & more certain treatment, including more in rights & obligations.**





Investment: Expected Benefits of IJEPA (cont.)

- In manufacturing the largest flows are to electrical machinery and office equipment; transportation equipment (automotive); and chemicals;
- In services the largest inflows are to finance and insurance, trade, transportation and real estate.





Trade Facilitation: Expected Benefits of IJEPA

- Improved cooperation & transparency in various fields: customs procedures, IPR, competition policy, etc. will further facilitate trade & investment flows between the two countries;





Cooperation: Expected Benefits of IJEPA

- Cooperation is a strong feature of IJEPA and a major reason why it is WTO Plus : SME development, human resources development, tourism promotion, science & technology, etc
- Industrial sector: strengthening of Manufacturing Industrial Development Center (MIDEC): automotive, electronics, textiles, energy conservation, export promotion and SME support, etc;





Cooperation: Expected Benefits of IJEPA (Cont.)

- Fisheries sustainability will also be a major feature of cooperation and will help Indonesia preserve its marine resources over the long-run;
- Agribusiness will benefit from several projects, including Distribution Mechanism and Food and Beverages and from programs aimed to benefit small farmers and fisherman.





Conclusion: Key Effects of IJEPA

- **Market access liberalization of trade in goods of IJEPA will bring immediate benefits to most exports of Indonesia and Japan on the date of entry into force of the Agreement;**
- **Freer market access in services into Indonesian market will provide substantial benefits to Japan in importing & investing;**
- **Improved cooperation & transparency in various fields: customs procedures, IPR, competition policy, etc. will further facilitate trade & investment flows between the two countries;**

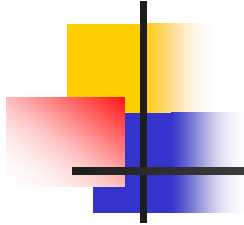




Conclusion: Key Effects of IJEPA (Cont.)

- **Japan's commitments on labor services can benefit Indonesian service providers, such as care-givers and spa workers;**
- **Technical Support and Capacity Building under IJEPA will provide concrete assistance to improve the quality of Indonesia's products;**
- **The EPA will be a stepping stone to broader regional cooperation with ASEAN plus agreements, APEC and the WTO Doha Agenda.**





Thank You



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