

Does Indonesia-Saudi Arabia relations really reach new hopes or just new-illusions? Lessons Learnt from Economic Aspects after the 2017 King's Visit to Indonesia¹

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Despite having relatively small trade and investment ties between Indonesia and Saudi Arabia in the past, some optimisms have been flourishing following the Saudis King's visit to Indonesia in 2017. This article makes a particular attempt to examine trade and investment ties between the two countries over the last five years and outlines some great opportunities for Indonesian side after the King's visit. It finds that recently some leading Indonesian enterprises have successfully tapped the business opportunities in Saudis market while the Indonesian tourism sector should be able to capitalize the post King's visit moment to attract much more Saudis and other worldwide Moslem tourists to visit Indonesia.

Keywords: Indonesia, Saudi Arabia, trade and investment ties, economic cooperation, tourism.

1. Introduction

After the momentous 2017 Saudis King's visit to Indonesia, most Islamic religion-embracing Indonesians' expectations had sparked regarding the near future of Indonesia-Saudi relations, particularly economic issues. Historically, despite among a few countries acknowledged the Indonesian independence since the beginning, the Saudis King's visit to Indonesia has just been two times, namely King Faisal on June 1970; and quite recently, King Salman on March 2017. Meanwhile, President Sukarno and President Joko Widodo are the only Indonesian presidents since independence who paid high level visit to the Kingdom of Saudi Arabia. In short, despite particularly having notable relations regarding Moslem realm, the bilateral high level visits between the two countries are surprisingly rare³.

This article examines the opportunities and challenges for the future of Indonesia-Saudi relations regarding economic issues. Moreover, this paper argues in general that there are a lot

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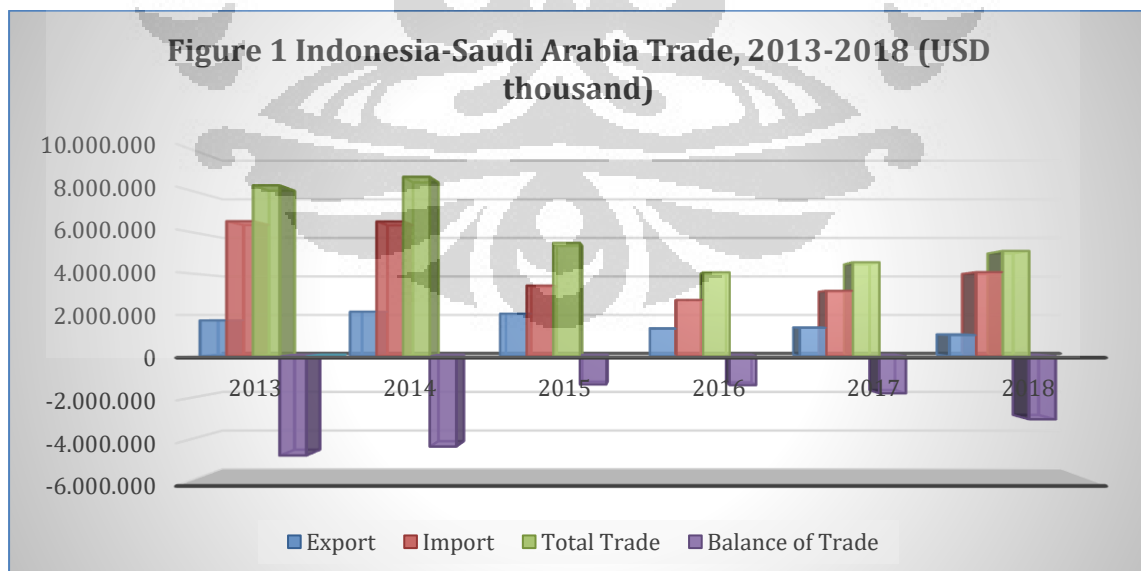
³ The bilateral high level visits between the two countries over the last 65 years is as follows: President Sukarno of Indonesia visited Saudi Arabia in 1955; King Faisal of Saudi Arabia visited Indonesia in 1970; President Joko Widodo of Indonesia visited Saudi Arabia in 2015; and King Salman of Saudi Arabia visited Indonesia in 2017 (for the detail, see *SteemNews.Online*. "After 47 years of King Faisal Visit to Indonesia". 2 March 2017; *the Jakarta Post*. "Jokowi Gets busy in Saudi Arabia". 12 September 2015; and Ninik Karmini & Stephen Wright. "Saudi Arabia Announces Indonesia Investments as King Visits". *The Washington Post*, 1 March 2017).

things have to be done for the Indonesian to focus on the most advantageous and prospective sector to attract and boost some potential business from Saudis to ensure the greater benefits.

This paper is organized as follows. Section 2 will summarize trade and investment ties between Indonesia-Saudi Arabia. Section 3 will figure out some opportunities for both countries to strengthen economic partnership in the near future. Finally, section 4 concludes and outlines some remaining problems to improve trade and investment ties between the two countries in the near future.

2. Trade and Investment Ties between Indonesia-Saudi Arabia

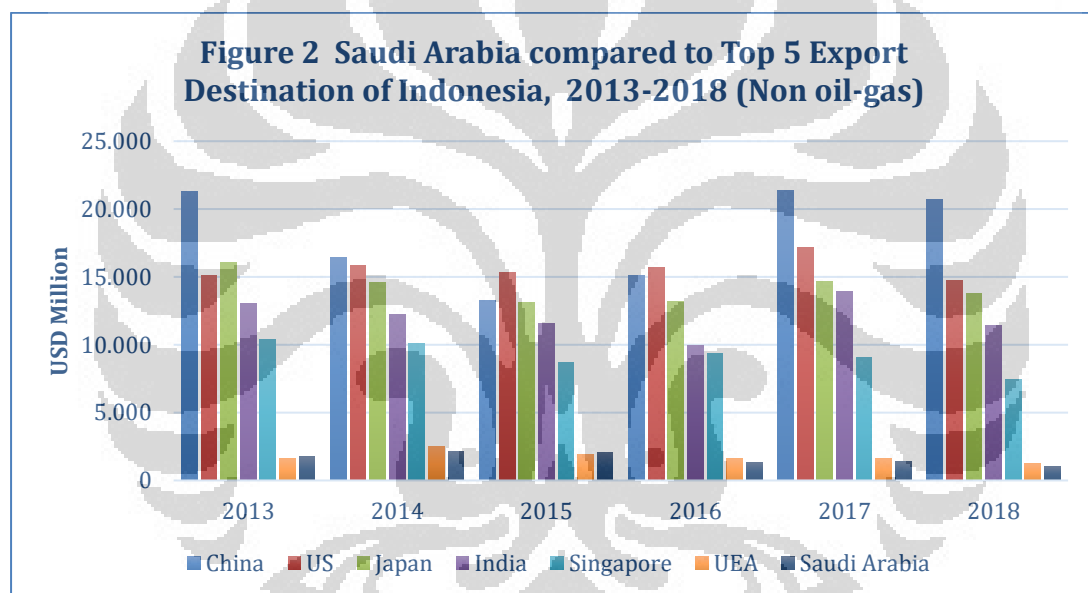
Despite having long-established official diplomatic relations since 1950, trade and investment ties between the two countries have always been relatively small. As depicted in Figure 1, over the last five years total trade value between the countries has seen decreasing trend despite slightly rebounded since 2016 while the trade balance is heavily in favor to Saudi Arabia. In other words, Indonesia had suffered from significant trade deficit to Saudi Arabia, particularly on oil sector, despite combined modest reduction and slight rebound since 2014. This is mainly due to the fact that Indonesia is highly dependent on oil import as the country begun to be net oil importer since 2008.



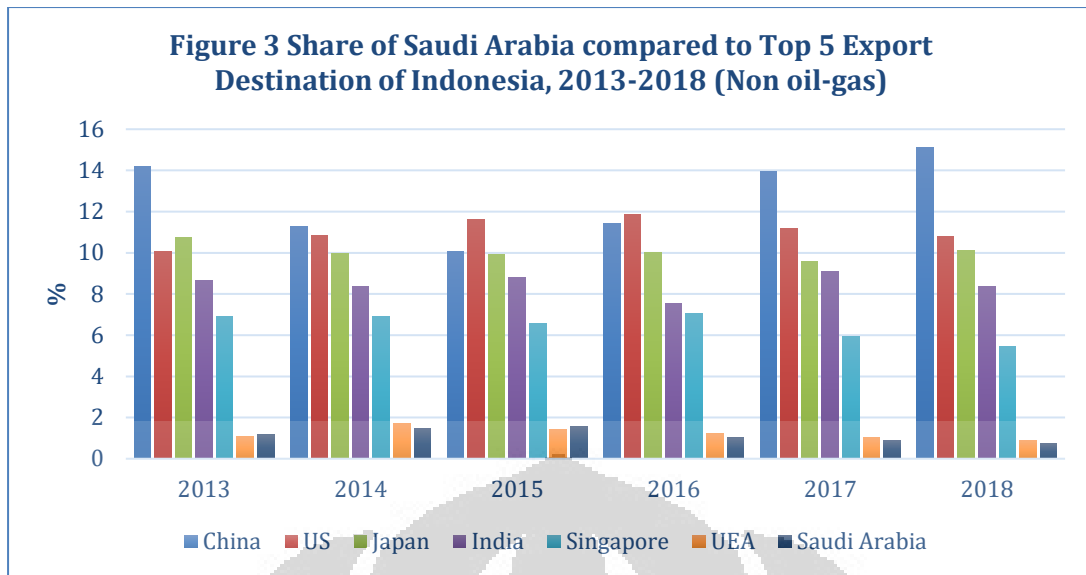
Source: Author's calculation from Ministry of Trade, GOI.

Note: Export-Import includes both oil-gas and non oil-gas while data for 2018 overs only Jan-Oct period.

Meanwhile, in contrast to common perception of many Indonesians that expected Saudi Arabia to contribute more on relations with Indonesia regarding economic aspects, the data shows completely opposite one. Regarding trade (export and import), unfortunately, Saudi Arabia is not a key trading partner for Indonesia, at least over the last five year. As a matter of fact, Saudi Arabia is beyond the top five export (non oil-gas) destination of Indonesia (see Figure 2). Indonesia's non oil-gas export to the Kingdom over the last five years has been worth less than USD five billion which was only less than two percent of total Indonesia's non oil-gas exports value or less than 10 percent of export to United States of America (see Figure 3). Furthermore, compared to Uni Arab Emirates, the Indonesia's export value to this country is even more significant than Saudi Arabia (see Figure 2 and 3).



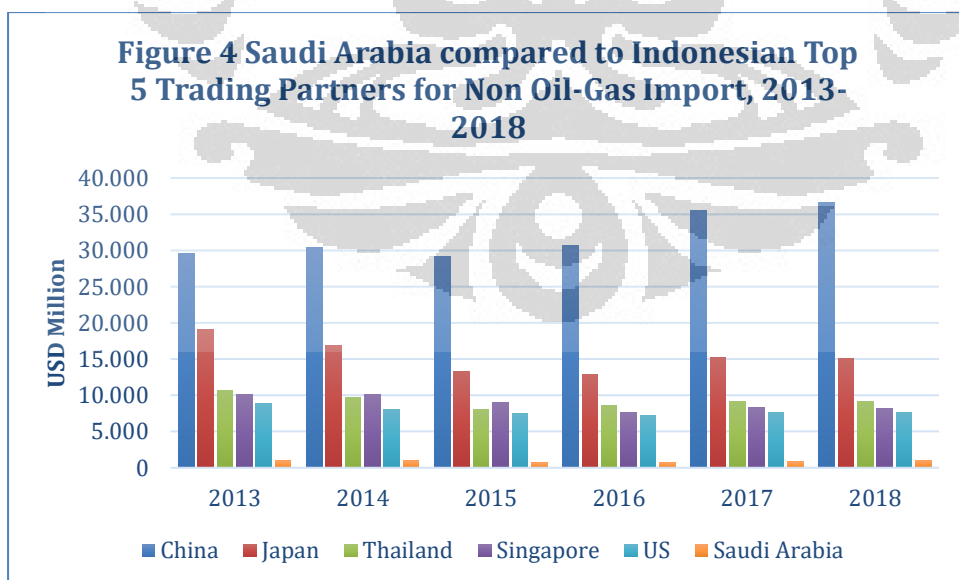
Source: Author's calculation from Ministry of Trade, GOI.
 Note: Data for 2018 covers only Jan-Oct period.



Source: Author's calculation from Ministry of Trade, GOI.

Note: Share to total Indonesian export of non oil-gas by destination country while data for 2018 covers only Jan-Oct period.

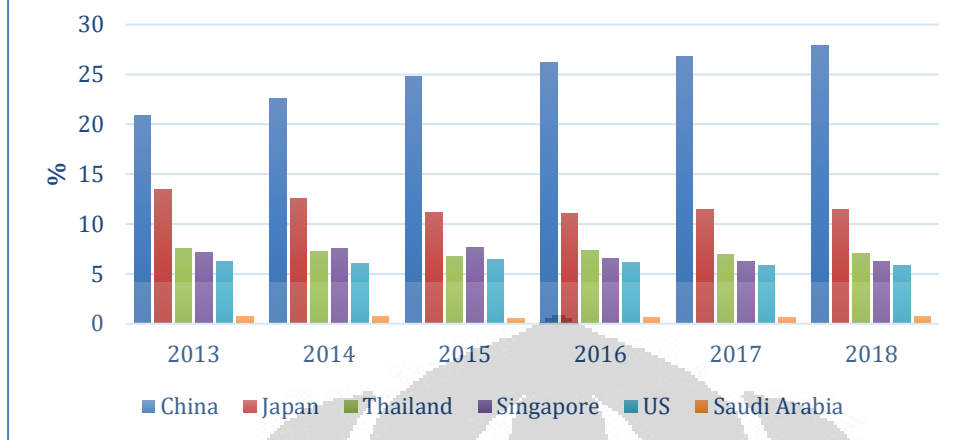
Likewise, the Indonesia's import for non oil-gas from the Kingdom over the last five years has been worth less than USD two billion which was only less than one percent of total Indonesia's non oil-gas import values (see Figure 4) or less than 10 percent of non oil-gas import from Japan (see Figure 5).



Source: Author's calculation from Ministry of Trade, GOI.

Note: Data for 2018 covers only Jan-Oct period.

Figure 5 Share of Saudi Arabia compared to Indonesian Top 5 Trading Partners for Non Oil-Gas Import, 2013-2018



Source: Author's calculation from Ministry of Trade, GOI.

Note: Share to total Indonesian import for non oil-gas by country of origin while data for 2018 covers only Jan-Oct period.

Table 1 Foreign Direct Investment from the Gulf States to Indonesia (USD Million)

Country	2010	2011	2012	2013	2014	2015	2016	Total (2010-2016)
Jordan	-	1.1	19.9	211.9	3.1	0.2	1.6	237.8
UAE	6.2	6.8	32.4	23.0	25.4	19.3	55.0	268.0
Afghanistan	-	-	0.6	0.3	42.3	9.6	12.3	65.0
Saudi Arabia	-	0.1	-	0.4	2.9	30.4	0.9	34.6
Iran	-	0.5	1.5	3.3	0.7	-	14.3	20.3
Yemen	-	-	0.1	-	-	7.1	0.8	8.1
Iraq	-	-	0.4	0.6	0.4	0.7	2.7	4.8
Kuwait	-	-	-	-	-	-	3.6	3.6
Lebanon	-	0.1	-	0.2	0.9	0.6	0.7	2.4
Bahrain	-	-	-	-	-	-	0.8	0.8
Syria	-	-	-	-	-	-	0.3	0.3
Oman	0.1	0.1	-	-	-	-	-	0.2
Qatar	-	-	-	-	-	-	-	0
Total	6.3	8.8	54.8	239.6	75.6	67.8	93.0	545.9

Source: Author's adjustment from Negara (2017), pp. 3.

Meanwhile, in term of investment, against some optimism from many Indonesian observers and officials that expected Saudi King visit would bring a huge and massive investment worth USD billions, historically the Kingdom's investment in Indonesia has been relatively small even compared to other such neighbouring Gulf countries as Jordan, UAE, and Afghanistan (see Table 1). During period of 2010-2016, the Kingdom just ranked fourth for Foreign Direct Investment (FDI) into Indonesia among the Gulf States' FDI into Indonesia while in 2016 and 2017, the Kingdom just ranked 57 and 54 respectively for total FDI into Indonesia, far below those from such non-Moslem countries as Singapore (1), Japan (2), China (3), Hongkong (4), and South Korea (5)⁴. These figures are surprising for Indonesian side despite sending the largest number of hajj pilgrims to Mecca among Muslim countries in the world.

In sum, over the last five years the trade and investment ties between Indonesia-Saudi Arabia has been still relatively small despite growing expectation of many Indonesians for greater Saudi Arabia's contribution to the Indonesian economy.

3. Some Great Opportunities for Economic Partnership

Despite still having relatively small trade and investment ties during the past, the King's visit to Indonesia in 2017 undoubtedly has raised new optimism regarding the future of both countries relations. Furthermore, President Joko Widodo has also demanded the King for greater Saudi market access for Indonesian goods during the King's visit to Indonesia in 2017, particularly for non oil-gas goods such as halal products, fishery products, medicines, and garment-apparel products (Negara, 2017). As a matter of fact, despite suffering from trade deficit to Saudi Arabia, based on Statistics of Indonesia data, Indonesia has enjoyed trade surplus in term of non oil-gas product export such as automotive, palm oil, fishery products, rubber related products, plywood, paper related products, and garment-apparel.

As the follow-up of King's visit, new strategic partnership between the two countries such as business talks has reached deal while some great opportunities to boost trade and investment ties have been realized. During first semester of 2018, according to Jeddah-based Indonesia

⁴ See Indonesia Investment Coordination Board. 2017. *Domestic and Foreign Direct Investment Realization in Quarter II and January-June 2017*. Jakarta, pp. 20.

Consulate General Economic and Trade, some renowned Indonesian companies have successfully exported their products to Saudi Arabian market as depicted in Table 2.

These Indonesian goods penetrated to Saudis market mainly consist of food-beverages and medical related products while the manufacturers involve not only private but also state-owned enterprises such as Kimia Farma and Bio Farma. This achievement is especially worthy of attention since these exported products are not merely natural resources based products but rather manufacturing products that need certain newly updated technologies and R&D efforts.

Table 2 Indonesian Companies initiated export to Saudi Arabia (first semester of 2018)

Company Name	Products
Mayora & Nabati Products	Biscuit, snack, and cookies
Sosro	Tea
Sasa Inti	Non MSG products for food spices
Kimia Farma	Medicines
Bio Farma	Human vaccines
Torabika Cappucino	Instant coffee

Source: author's compilation from <http://saudigazette.com.sa/article/541304/World/Indonesia-Independence-Day/Charting-the-future-New-Indonesia-Saudi-strategic-partnership-after-King-Salman-visit>

The King's visit to Indonesia in 2017 should also become a great moment to boost national tourism sector. The enjoyed and extended visit that the King and his entourage spent in Bali island could draw more attentions from Saudi Arabian tourists. Moreover, the so-called "King Salman Route" during his visit to Indonesia could become an iconic marketing tool to attract more Saudi Arabian and other Gulf countries' tourists to visit Indonesia. This great expectation looks realistic since some Indonesian companies and institutions have successfully received some prestigious awards from the World Halal Tourism during 2017 (see table 3). This internationally recognized halal reputation that has been achieved by Indonesia could strongly convince not only Saudi Arabian tourist but also most worldwide Moslem society to visit and enjoy the beauty of Indonesia.

Table 3 International Recognition for Indonesian from the World Halal Tourism, 2017

Company/Destination Name	Awards Name
Garuda Indonesia	World's Best Airline for Halal Travelers

the Rhadana Kuta Hotel Bali	World's Best Family Friendly Hotels
the Trans Luxury Hotel Bandung	World's Most Luxurious Family Friendly Hotels
Novotel Lombok Resort & Villas	World's Best Halal Beach Resort
Sembalun Valley Region	World's Best Halal Honeymoon Destination
West Sumatra	World's Best Halal Destination
Aceh	World's Best Halal Cultural Destination

Source: author's compilation from <http://saudigazette.com.sa/article/541304/World/Indonesia-Independence-Day/Charting-the-future-New-Indonesia-Saudi-strategic-partnership-after-King-Salman-visit>

In terms of investment, such leading Indonesian state-owned enterprises as Kimia Farma, WIKA, and Waskita Karya have expanded their business operation in Saudi Arabia and invested in such technology-based sectors as pharmacy and infrastructure (see Table 4). Through Conditional Share Subscription Agreement (CSSA) with Saudis Dwa Medical Ltd, the Indonesian Kimia Farma established pharmaceutical outlets and distribution centers in the three key cities such as Makkah, Madinah, and Jeddah to respond Indonesians pilgrims and workers' demand for health products. Meanwhile, having been endowed with many talented and skilled engineers graduated from such respectable Indonesian universities as Universitas Indonesia, Bandung Technology Institute, Gajah Mada University, and so forth, the Indonesian WIKA and Waskita Karya has successfully tapped business opportunities in Saudi Arabia by acquiring some infrastructure projects.

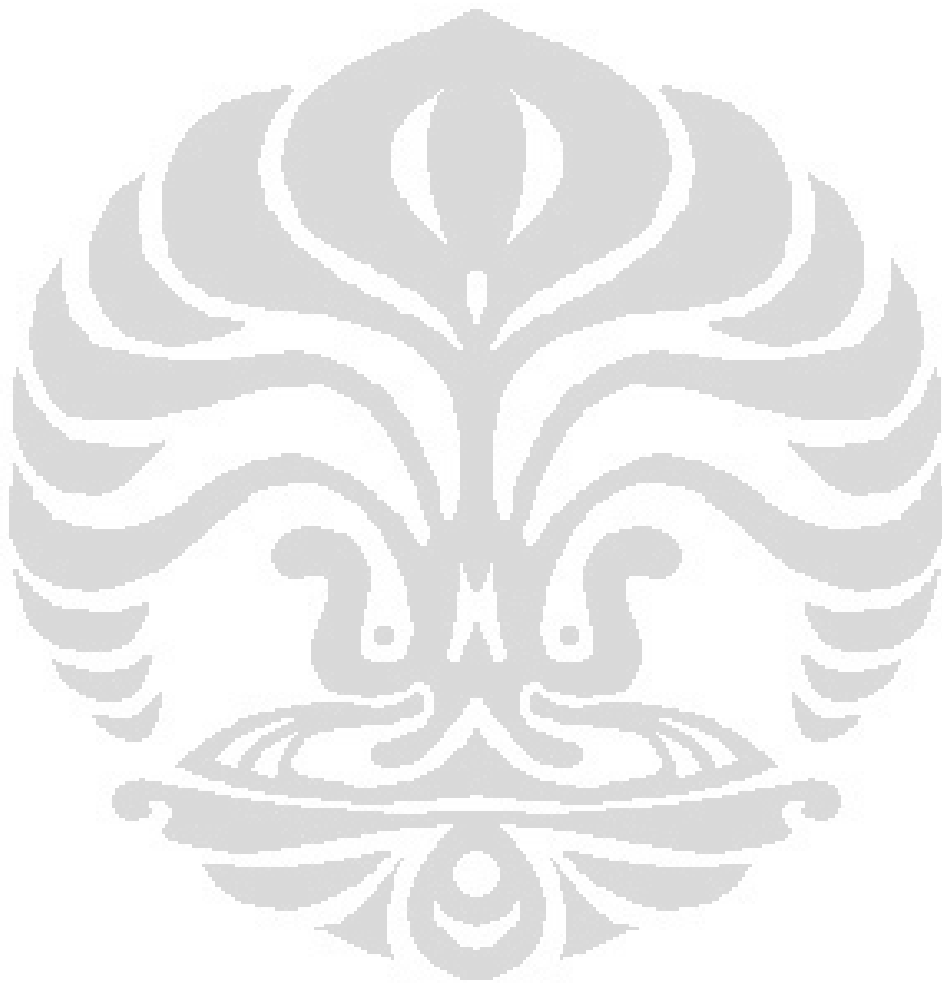
In sum, after the King's visit to Indonesia in 2017, some great opportunities for better trade and investment ties have been realized and in progress. Some Indonesian leading companies, both private and state-owned enterprises have successfully exported their products to Saudis market and expanded their business activities in Saudi Arabia through certain economic partnership scheme with some Saudis enterprises. In addition, Indonesian tourism should be able to tap some great benefits from the King's visit to the country in 2017 by promoting the so-called "King Salman route" and the country's internationally recognized Halal reputation to attract much more Saudis and other Moslem tourists around the world to visit Indonesia.

Table 4 Potential Investment Partnership between Indonesia-Saudi Arabia

Company Name	Sector
Al Tayyar Group	Tourism

Kimia Farma and Dwaa Medical Ltd	Pharmaceutical outlets
WIKA, Waskita Karya	Infrastructure

Source: author's compilation from <http://saudigazette.com.sa/article/541304/World/Indonesia-Independence-Day/Charting-the-future-New-Indonesia-Saudi-strategic-partnership-after-King-Salman-visit>



4. Conclusion and Remaining Problems

Despite having relatively small trade and investment ties between the two countries over the last five years, some great optimisms for better opportunities to tighten economic and business relations in the near future have been flourishing. Some Indonesian reputable private and state-owned enterprises have taken a lead to initiate actions to penetrate Saudi market by exporting their good quality products and to expand their business units by laying investment in such important sectors as pharmacy and infrastructure in Saudi Arabia. Furthermore, shortly after the King's visit to Indonesia in 2017, the country's tourism sector should take a look the visit as a great benefit and potential business to attract and convince much more Saudis and other worldwide Moslem tourists to visit Indonesia to enjoy the beauty of the country unless the Indonesian side would lose this great moment.

Nevertheless, those opportunities have enjoyed by the Indonesian side was limited to some large enterprises, meaning that knowledge, skill, capital, and symmetric information still matter. In fact, the two countries have signed the MOU related to Small Medium Enterprises (SMEs) development, including Technical and Vocational Education and Training (TVET) and market access. These should become an additional priority for the Government of Indonesia to promote not only G to G but also P to P (Private to Private) cooperation, particularly SMEs, to further accelerate and tighten trade and investment ties with Saudi Arabia in the near future.