

PROSPECT OF INDONESIA – RUSSIA ECONOMIC COOPERATION

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ABSTRACT

Indonesian economic interests have always been an integral part of Indonesia's foreign policy. Bilateral economic relations play a strategic role in the growth and development of an economy.

Twelve years ago Indonesia and Russia signed Declaration on the Framework of Friendly and Partnership Relations between the Republic of Indonesia and the Russian Federations in the 21th century. The increase of bilateral trade volume, flow of investment and several bilateral agreements signed between the two countries, can be seen as opportunities as well as challenges for the two countries.

Although trade has been established, the values are still far beyond the potentials that are existed. The distance or trade route, the small inquires for Indonesian products, cost of transportation, system of payment and lack of knowledge and languages on the potential of both Indonesia and Russia, hindered the enhancement of trade relation between Indonesia and Russia.

The hierarchy of Russian foreign policy objective is the Commonwealth of Independent States (CIS), followed by the West, and only then comes to the Asia Pacific vector of cooperation including cooperation with Indonesia. Indonesia's Chamber of Commerce should conduct a thorough market research in order to obtain the most extensive information about the demand of the Indonesian export products that have entered the Russian market. That information should contain specific data such as: type of product, volume of import, country of origin, means of distribution, regulations, tariff and non-tariff barriers, and other statistics.

Key Word : Rusia, Indonesia, Diplomacy Economic.

I. BACKGROUND

Indonesian economic interests have always been an integral part of Indonesia's foreign policy. As it was emphasized by the Foreign Minister Marty M. Natalegawa in his New Year's speech in Jakarta on 4 January 2012 that "economic diplomacy will continue to become a main theme in Indonesia's foreign policy. Efforts to enhance economic, trade and investment relations with other countries are one of the priorities of Indonesian diplomacy, in order to support national development and economic growth and to enhance the welfare of our people". Indonesia's diplomatic efforts in the economic field, according to Dewi Fortuna Anwar, are "directed at achieving three main goals: securing market access for its exports, attracting foreign direct investment (FDI) and finding placement for Indonesia migrant workers"

In this context, bilateral economic relations play a strategic role in the growth and development of an economy. Some of the major benefits of bilateral economic relations are advantages of cost, economies of scale, and employment. Many countries across the globe have established strong bilateral economic relations with other countries.

One of the major components of bilateral economic relations is bilateral trade. The trade of goods and services between two countries help both the participating countries to reap benefits by exporting goods and services which are produced in excess and importing those where there is a shortfall. Another import aspect of bilateral economic relations is FDI (Foreign Direct Investment). Inflow of foreign direct investments has proved to be beneficial for many developing economies.

Many countries across the globe have undertaken liberalization policies to attract foreign direct investments into the economy including Indonesia and Russia.

Twelve years ago Indonesia and Russia, major powers of the Asia-Pacific region with dynamically growing economies and similar plans of modernization and innovation development, opened a new page in their cooperation. On April 21, 2003 President of Indonesia Megawati Soekarnoputri and President of Russia Vladimir Putin signed Declaration on the Framework of Friendly and Partnership Relations between the Republic of Indonesia and the Russian Federations in the 21th century.

The signing of this declaration as a comprehensive document marked a new milestone towards a concrete, prospective and mutually beneficial cooperation. The facts show that the increase of bilateral trade volume, flow of investment and several bilateral agreements signed between the two countries, can be seen as opportunities as well as challenges for the two countries.

For Indonesia, Russia is a very important and very reliable partner with a significant competitive advantage. Russia has an important role in the global and regional economies. Russia has a steady socio-economic dynamics and in the presence of similar elements in the national economy with a large market. Russia has significant financial resources, scientific, technical and innovative potential and serious developments in leading industries. The emergence of Russia as one of the world's largest economic power has encouraged many countries, including Indonesia to take advantage of those opportuni-

ties. This development is very interested in Indonesia. Both countries should focus long-term mutually beneficial cooperation on bilateral economic relations especially in trade and investment sectors.

The close relations between both countries in the past 8 years have brought several challenges as well as opportunities and prospects, particularly in the efforts to forge economic relations. The joint statement which was agreed on September 6, 2007 during the visit of President of Russian Federations Vladimir Putin to Jakarta served as driving factors to push a mutual beneficial relationship between the two countries. The higher bilateral trade volume and higher flow of Russian investment to Indonesia shall be developed to achieve sustained progress and prosperity for both countries in the rapidly evolving and dynamic regional and global economic situation.

A focus to modernization and innovation driven economic development based on efficient use of the richest natural resources and development of human potential is becoming a key factor of bilateral economic cooperation development between Indonesia and Russia.

Russia has the potential to be developed more intensively to absorb Indonesian products. Although trade has been established with this country, the values are still far beyond the potentials that are existed. Other problems such as the distance or trade route, the small inquires for Indonesian products, cost of transportation, system of payment and lack of knowledge and languages on the potential of both Indonesia and Russia, hindered the enhancement of trade relation between Indonesia and Russia. Russia consider as the

biggest and potential of nontraditional market in Central and Eastern European Region.

a. Brief overview of Russia's Foreign Economic Policy

Promoting economic relations became an important factor in facilitating the overall state of Russia's relations with its regional neighbors including in East and Southeast Asia. Asia-Pacific region is declared a "most dynamically developing geopolitical space" and dubbed as the future center of global economy and politics. Furthermore, Russia will continue to increase its cooperation with other ASEAN member states including Indonesia.

As a result of its Soviet central planning legacy and rich resource endowments, Russia's industrial sector is heavily skewed towards heavy industries. In 2002 machine-building and metal-working remained the largest processing industry, accounting for just over 20% of industrial production. Light Industry – which include textiles- accounted for only 1,5% of industrial output.

The transition from a highly-industrialized command economy to a market based economy has been taking place since 1991, boosting private consumption and benefiting all sectors of the economy that cater to consumers. Retailers, communication services providers, car dealers, car maintenance services, insurers, dealer of branded consumer durables, producers of personal care and fitness services are segments where significant growth is expected for several years. Accession to the WTO would help make Russia's economy more transparent and predictable, increase the protection of minority

shareholder rights, and strengthen the enforcement of contracts.

On December 16, 2011, Russia accepted as the 156th member of World Trade Organization (WTO). President Vladimir Putin in July 2012 has been signed notification of ratification of the Protocol of Accession and on August 22, 2012 Russia officially became a WTO member. Russia will comply with WTO norms, as it meets all of its international obligations.

From the above explanation, Russia's international economic relations is consistent with priorities of the innovation-based development of the country include ensuring its equal standing in the modern system of international economic relations, minimizing risks associated with its integration into the global economy, including those related to its membership in the World Trade Organization (WTO).

Concerning a growing tension in Ukraine and Russia, this conflict has caused significant financial market disruptions in the region and also globally. Financial markets in Russia were hard hit by escalating tensions, with the ruble trading at a five-year low against the dollar and stock markets down 18 % since the start of the year.

The Russian government and an Indonesian business group have dismissed fears that political tensions between Russia and Western countries will disrupt the budding economic relationship between Indonesia and Russia. Russia's ambassador to Indonesia H.E Mr. Mikhail Galuzin also said that "There is no impact at all from the developments in Ukraine towards the relationship

between Indonesia and Russia, both countries are eager to develop their relationship for their mutual benefit."

b. Brief overview of Indonesia-Russia Relations

The year 2015 marks the 65th anniversary since Russia, the successor of the Soviet Union, and Indonesia established diplomatic relations on February 3, 1950. A truly active phase of cooperation began in early 2000-s, and a landmark event in this regard was an official visit to Russia by Indonesian president Megawati Soekarnoputri in April, 2003. As a result of that visit, the sides signed a Declaration on the Foundations of Friendship and Partnership Relations between Russia and Indonesia in the 21st Century, providing an important impulse to the cooperation on a new pragmatic basis and confirming that Russian-Indonesian cooperation has a promising in the future. This strategic partnership stands on three ways; first, political and security cooperation; second, economic; and third, social and cultural ties. Naturally, in the development of relations between our two countries we are concentrating on these three areas. The document also served as the new foundation for a strategic relation (strategic partnership) at the bilateral, regional and global level.

For Indonesia, Russia is very important and very reliable partner with a significant competitive advantage. Russia has an important role in the global and regional economies. It has a steady socio-economic dynamics, retains political stability. In the presence of similar elements in the national economy of Russia and Indonesia (large market and mining), Russia has significant financial resources, scientific, technical and

innovative potential and serious developments in leading industries. This development is very interested in Indonesia.

In the connection to the Strategic Partnership document between Indonesia and Russia, there are 2 articles which explain about bilateral economic cooperation:

Article 6 : To promote bilateral relations in the economic, trade, scientific and technological, military and technological fields, including defense industry corporation, and to that end to develop favorable legal, financial and economic environment; to encourage direct corporation between state and private enterprises, economic and financial structures.

Article 7 : To promote joint enterprises and investment activities, including in the field of small and medium enterprises and in other economic spheres deemed most promising and beneficial for both states; to enhance to that end the efficient activities of the Indonesian-Russian Joint Commission on Trade, Economic, and Technological Cooperation and to further strengthen its interaction mechanism.

Russia consider Indonesia as a key and promising partner of Russia in the Asia-Pacific region, and as one of the most important "growth points" of the world economy and also Indonesia represents Russia's

traditional trade partner in Southeast Asia. Indonesia, as the largest energy supplier in Asia, has significant labor and natural resources, is seeking to diversify the national economy and foreign trade sector. In turn, Russia is important to Indonesia as a promising and reliable partner in the development of its high-tech and innovation economic sectors.

Despite the ongoing talk in recent years of the need for Russian diplomacy to orientate itself in an Asian or Asia Pacific direction, relations with Western countries are still prioritized in the hierarchy of Russian foreign policy objectives: in first place is the Commonwealth of Independent States (CIS), followed by the West, and only then comes to the Asian or Asia Pacific vector of cooperation including cooperation with Indonesia.

Indonesia has 4 channels to access the cooperation with Russia such as Asean Regional Forum (ARF), East Asia Community, and Asia Pacific Economic for Cooperation (APEC). We must be able to convince Russia that Indonesia is also a potential market for Russia. Indonesia could also provide a good raw material. Labour are affordable and reasonable. In addition, Indonesia and Russia have a strategic partnership signed in 2003 in Moscow.

The contacts at the highest level continued with the official visit by President Susilo Bambang Yudhoyono to Moscow and Saint-Petersburg on November 29 – December 1, 2006, which resulted in signing of a number of framework bilateral documents on cooperation in various fields, and an official visit by the President Vladimir Putin to Indonesia on September 6, 2007. This is the first visit by a

Russian head of state. The historic results of this visit demonstrated dynamic development of the relations between the two countries until now.

In order to promote the development and strengthening of the trade and economic relations between Indonesia and Russia and Indonesia, to diversify the forms of Russia-Indonesian bilateral economic cooperation especially in trade and investment, Indonesia and Russia already entered into the following agreements:

1. Arrangement between the Bank of Indonesia and the Central Bank of the Russian Federation on Payment Transactions relating to Foreign Trade (Moskow, 1994)
2. Trade Agreement between the Government of the Russian Federation and the Government of the Republic of Indonesia (Jakarta, 1999);
3. Agreement on Economic and Technical Cooperation between the Government of the Russian Federation and the Government of the Republic of Indonesia (Jakarta, 1999);
4. Agreement between the Government of the Republic of Indonesia and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (Jakarta, 1999);
5. Declaration of the Framework of Friendly and Partnership Relations between the Republic of Indonesia and the Russian Federation in the 21st Century (Moskow, 2003)
6. Agreement between the Government of the Republic of Indonesia and the Government of the Russian Federation on Visa Exemption for Short-Term Visits of the Holders Diplomatic and Service Passports (Moskow, 2006)
7. Agreement between the Government of the Russian Federation and the Government of the Republic of Indonesia on the Promotion and Protection of Investments (Jakarta, 2007).
8. Cooperation Agreement between the Chambers of Commerce of the Russian Federation and the Republic of Indonesia dated 1997;
9. Memorandum of Understanding between the Central Bank of Indonesia and the Central Bank of the Russian Federation dated 2002;
10. Agreement between the Chamber of Commerce of the Russian Federation and the Indonesian Chamber of Commerce on Cooperation in the Business Information Exchange;
11. Memorandum of Understanding between the Ministry of Economic Development of the Russian Federation and the Ministry of Trade of the Republic of Indonesia on Cooperation in Economic Modernization dated 2011.

c. Increasing Indonesia-Russia Economic Relations (Trade and Investment)

Indonesia, the largest economy in Southeast Asia, has of late been drawing attention from the farthest corners of the globe, especially after its recent entry into the world's top 20 economies. Russia, also a member of the G20, has been making serious efforts to enhance its relations with the resource-rich Indonesia.

Bilateral economic relations between Indonesia and Russia have been

growing in a dynamic way in recent years. Indonesia and Russia cooperate in trade and investment sectors through state owned enterprises and private companies. The real momentum came after Russian President Vladimir Putin visited Indonesia in 2007. Since then, bilateral trade and Investment has gone up significantly.

According to Minister of Economic Development of the Russian Federation, Aleksey Ulyukayev who attended the APEC Summit in Bali last year, Russia consider Indonesia as an important trading partner because Indonesia is one of the fastest growing world economies with large and young population and excellent economic prospects. Bilateral ties between Indonesia and Russia are advancing. Along with promoting trade, Russia also excited about investment projects, first of all in the sphere of infrastructure, transportation and mining industry and cooperation in the field of railway transport. In case of success it will make a positive impact on economic growth both in Indonesia and in Russia.

In order to expand and enhance bilateral economic relations, strengthen and promote the expansion of economic cooperation between Indonesia and Russia on a lasting and long term basis, both countries already conducted nine sessions of the Indonesian - Russian Joint Commission on trade, economic and technical cooperation. The 9th Joint Commission was held in Jakarta on February 25, 2014. The Indonesian Delegation was headed by Coordinating Minister for Economic Affairs of the Republic of Indonesia, H.E. Mr. M. Hatta Rajasa and the Russian Delegation was headed by Deputy Prime Minister of the Russian Federation, H.E. Mr. Dmitry.O. Rogozin.

The Commission was held to review the progress of bilateral cooperation since the Eighth Session of the Intergovernmental Russian-Indonesian Joint Commission on Trade, Economic and Technical Cooperation in Moscow on June 2012 and to explore further potential cooperation between the two countries with a view to strengthen and to widen the bilateral relations in various sectors. During The 9th Joint Commission, Both Sides agreed to establish 5 Working Groups including Working Group on Legal Basis of the Bilateral Cooperation and Working Group on Trade, Industry and Investment in an effort to provide its effective activity.

Among other prospective and priority avenues of Indonesian-Russian economic cooperation that are obviously worthy of special consideration by the parties are the following areas of joint activity:

- *Industrial sector*: facilitating cooperation in the field of mechanical engineering, supplies and joint manufacturing of heavy construction and mining machinery (tractors, dozers, excavators, cranes and lifting equipment).
- *Peaceful use of atomic energy*: Indonesia, technically, is prepped for development of national atomic power sector and disposes of sufficient Uranium resources (as much as 59 thousand tons in West Kalimantan and large untapped resources in the province of Papua). Currently, there are three research reactors operating in Indonesia and built in different periods - Bandung Triga 2000 (2000 kW), Kartini Research Reactor (100 kW) and Siwabessy Multipurpose Reactor (30MW).
- *Mineral resources mining and*

processing: Much anticipated resumption of the high profile investment project earlier undertaken by UC Rusal in cooperation with state-run mining company PT Antam. The project foresaw combining efforts in establishment of a JV to be engaged in exploration of bauxite resources and development of alumina production in W. Kalimantan, boosting aluminum production and power sector in North Sumatra (the respective agreement expired in September 2010). Another potential area of prospective Russian-Indonesian cooperation may be joint exploration and mining of substantial nickel-rich deposits on the island of Sulawesi as well as development of nickel ore processing facility in Indonesia.

- *Transportation and infrastructure development*: Cooperation in development of logistics and transportation infrastructure, inter alia aimed at facilitating bilateral supplies of finished goods and raw materials (e.g. joint development of harbor infrastructure for discharge, storage and transportation of palm, kernel and coconut oil in Russian ports; application of Indonesian expertise in toll road construction; involvement of Russian investors in construction of coal terminals in Kalimantan), shipments to Indonesia of railway wheel pairs.
- *Agriculture and agro-industrial sector*: Expansion of shipments to Indonesia of Russian fertilizers, grain and flour, as well as agricultural machinery yet diversification of foodstuff and commodities import from Indonesia.
- *Banking and financial sector*: Enhancing cooperation (includ-

ing that of Vnesheconombank, Roseximbank, Alfa-bank with Bank Mandiri and BNI) in different areas — funding of bilateral projects; creating conditions that enable settlements in bilateral trade to be effected in national currencies, developing electronic micropayments system.

- *Anticipation and mitigation of consequences of emergency situations*: Cooperation between Russian EMERCOM and Indonesian National Board For Disaster Management (BNPB) in different areas such as environmental monitoring and firefighting (organization of supplies to Indonesia of special equipment and aircraft, e.g. Beriev BE-200 “Altair” multipurpose amphibious aircraft manufactured by Irkut corporation), earthquakes, tsunami and other natural disaster recovery, fighting terrorism, etc.
- *Travel Sector*: Resumption of Aeroflot regular flights to Indonesia, opening of direct flights of an Indonesian airline company to Moscow, Russian investments into the construction of hotels and other objects of tourism industry in Bali.

e.1 Trade

Russia was the Indonesian potential market with PDB per capita more than US\$ 22,408 current PPPs (2011) and the largest population in the Europe (more than 143.2 million lives in 2012).

During the 8th of the Intergovernmental Russian-Indonesian Joint Commission on Trade-Economic and Technical Cooperation held in Moscow on the 25th of June, 2012, both countries undertook arrangements on different aspects of mutual collaboration and joint efforts aimed

at all-round expansion of business relations, confirmed their commitments towards development of diversified and more balanced trade, building of investment climate conducive to business activities of both Parties. Particularly the participants acknowledged their willingness to use their utmost endeavors for the significant increase in mutual trade turnover, expected to reach US\$ 5 billion by the year of 2015.

According to the data from the Central Statistic Agency of Indonesia, bilateral trade between Indonesia and Russia in 2008 reached \$ 1.66 billion, an increase of 114.49 % from the \$ 777.42 million posted in 2007. Russia is the destination country of the 29th Indonesian exports with the share of 0.62% from total Indonesian export in 2013, which from year to year increased with the trend of 33.17% (2008-2012). Meanwhile, in 2013 the two-way bilateral trade

volume reached US\$ 3.523 billion from that of US\$ 3.372 billion in 2012. Indonesian export to Russia in 2013 jumped from US\$ 867.32 million (2012) to US\$ 930.25 million (2013), sharing similar trend of the increase of import from Russia of US\$ 2.505 billion (2012) to US\$ 2.593 billion (2013).

In January - October 2014, total trade between Indonesia and Russia reached US\$ 2.251 billion with export US\$ 833.68 million and import from Russia US\$ 1.417 billion.

Russia in the rank of the 14th in Indonesian import with the share of 1.46% from total of Indonesian import in 2013, which from year to year also increased with the trend of 29.34% (2008-2012). Below is the balance of trade between Indonesia and Russia since 2008-2013 (in thousand US\$):

TRADE BALANCE
INDONESIA and RUSSIA FEDERATION
Period: 2008 – 2013

(Value : Thousand US\$)

Description	2008	2009	2010	2011	2012	Trend(%) 2008- 2012	Jan-Dec		Change(%) 2013/2012
							2012	2013	
TOTAL TRADE	1.667.461,8	774.886,8	1.685.673,7	2.544.351,4	3.372.985,2	29,67	3.372.985,2	3.523.888,8	4,47
OIL & GAS	85.530,7	21.119,9	171.308,4	395.028,6	728.358,6	105,70	728.358,6	523.502,9	-28,13
NON OIL & GAS	1.581.931,1	753.766,9	1.514.365,3	2.149.322,8	2.644.626,7	23,07	2.644.626,7	3.000.385,9	13,45
EXPORT	342.311,9	316.132,9	609.467,2	863.484,5	867.326,1	33,17	867.326,1	930.251,6	7,26
OIL & GAS	825,1	371,6	23,0	0,0	1,0	0,00	1,0	0,0	-100,00
NON OIL & GAS	341.486,7	315.761,3	609.444,2	863.484,5	867.325,1	33,25	867.325,1	930.251,6	7,26
IMPORT	1.325.149,9	458.753,9	1.076.206,5	1.680.866,8	2.505.659,1	29,34	2.505.659,1	2.593.637,3	3,51
OIL & GAS	84.705,6	20.748,3	171.285,4	395.028,6	728.357,5	106,47	728.357,5	523.502,9	-28,13
NON OIL & GAS	1.240.444,4	438.005,6	904.921,1	1.285.838,2	1.777.301,6	19,68	1.777.301,6	2.070.134,3	16,48
BALANCE OF TRADE	982.838,1	142.621,0	466.739,2	817.382,3	1.638.333,0	31,89	1.638.333,0	1.663.385,7	1,53
OIL & GAS	-83.880,4	-20.376,8	171.262,4	395.028,6	-728.356,5	107,25	-728.356,5	-523.502,9	-28,13

Description	2008	2009	2010	2011	2012	Trend(%) 2008- 2012	Jan-Dec		Change(%) 2013/2012
							2012	2013	
NON OIL & GAS	- 898.957,6	- 122.244,3	- 295.476,8	- 422.353,7	-909.976,5	13,48	-909.976,5	- 1.139.882,8	25,27

The balance of trade between Indonesia and Russia until now is heavily in favor to Russia. Indonesia needs to correct the imbalances in favor of Russian side of around US\$ 1.663 billion (2013). Both countries should work together to achieve mutually beneficial of bilateral trade.

Indonesia mainly exports product to Russia such as: Animal, vegetable fats and oils, cleavage products, Footwear, gaiters and the like, Coffee, tea, mate and spices, electrical, electronic equipment, rubber and articles thereof Articles of apparel, accessories, not knit or crochet, Machinery, nuclear reactors, boilers, Organic chemicals, fish, crustaceans, molluscs, aquatic invertebrateness, Cocoa and cocoa preparations, furniture, lighting, signs, prefabricated buildings, Vehicles other than railway, Paper and paperboard, articles of pulp, paper and board and cotton.

Whereas Indonesia mainly import products from Russia such as: ron and steel, Aircraft, spacecraft and parts thereof, Mineral fuels, oils, distillation products, Vehicles other than railway, Salt, sulphur, earth, stone, plaster, lime and cement, Fertilizers, Cereals, Rubber and articles thereof, Copper and articles thereof, Aluminum and articles thereof, Paper and paperboard, articles of pulp, paper and board, Pulp of wood, fibrous cellulosic material, waste etc, Fish, crustaceans, molluscs, aquatic invertebrateness, Organic chemicals, Arms and ammunition, parts and accessories thereof.

Concerning Russia's trade with some of Indonesia's smaller neighboring countries, this figure does not represent the true potential of the countries' economic cooperation. The Russia-Malaysian trade volume reached \$4 billion in 2011. Further, while most Russians enjoy drinking tea from Vietnam or Sri Lanka, Indonesia produces more.

**Table of Indonesia's Exports to Russia 2011-2013
(15 big products)**

No	Product code	Product label	Indonesia's exports to Russian Federation		
			Value in 2011	Value in 2012	Value in 2013
	TOTAL	All products	863,483	867,326	930,252
1	'15	Animal, vegetable fats and oils, cleavage products, etc	420,593	383,421	390,931
2	'64	Footwear, garters and the like, parts thereof	48,637	60,032	75,094
3	'09	Coffee, tea, mate and spices	49,953	75,726	74,621
4	'85	Electrical, electronic equipment	32,908	32,241	72,632
5	'40	Rubber and articles thereof	62,649	58,957	47,500
6	'62	Articles of apparel, accessories, not knit or crochet	20,250	23,773	26,732
7	'84	Machinery, nuclear reactors, boilers, etc	16,660	20,286	24,165
8	'61	Articles of apparel, accessories, knit or crochet	17,338	23,088	22,750
9	'29	Organic chemicals	22,437	20,656	21,628
10	'03	Fish, crustaceans, molluscs, aquatic invertebrates nes	21,431	41,202	21,199
11	'18	Cocoa and cocoa preparations	10,841	10,226	17,738
12	'94	Furniture, lighting, signs, prefabricated buildings	10,166	12,263	13,479
13	'87	Vehicles other than railway, tramway	3,293	3,915	13,220
14	'48	Paper and paperboard, articles of pulp, paper and board	14,616	11,996	13,117
15	'52	Cotton	19,533	13,002	11,123

Table of Indonesia's Import from Russia 2011-2013
(15 big products)

No	Product code	Product label	Indonesia's imports from Russian Federation		
			Value in 2011	Value in 2012	Value in 2013
	TOTAL	All products	1,680,867	2,505,659	2,593,637
1	'72	Iron and steel	524,307	1,130,000	681,217
2	'88	Aircraft, spacecraft, and parts thereof	67,227	1,827	561,832
3	'27	Mineral fuels, oils, distillation products, etc	395,029	728,368	528,684
4	'87	Vehicles other than railway, tramway	198	103	127,502
5	'25	Salt, sulphur, earth, stone, plaster, lime and cement	34,672	72,247	54,530
6	'31	Fertilizers	466,461	369,690	76,618
7	'10	Cereals	1,602	12,689	65,293
8	'40	Rubber and articles thereof	24,293	30,151	26,713
9	'74	Copper and articles thereof	31,305	42,160	25,733
10	'76	Aluminium and articles thereof	22,713	24,254	24,202
11	'48	Paper and paperboard, articles of pulp, paper and board	36,272	28,500	19,592
12	'47	Pulp of wood, fibrous cellulosic material, waste etc	10,030	14,038	14,954
13	'03	Fish, crustaceans, molluscs, aquatic invertebrates neg.	5,677	4,973	13,544
14	'29	Organic chemicals	16,408	17,025	13,202
15	'93	Arms and ammunition, parts and accessories thereof	2,596	5,503	8,090

e.2 Investment

It is widely accepted that foreign direct investment has been one of the main drivers of economic globalization. The world has witnessed on how capital inflows have increasingly surged and affected significantly to the economic development and well-being of particular country since it has become main source of external finance.

Indonesia has enacted economic laws and policies that were made to spread investments across the country's regions to raise inflows of Foreign Direct Investment (FDI) and increase growth. A landmark of the reforms was Investment Law which passed in 2007. It covers both domestic and foreign investment, stipulating national treatment for foreign investment, in particular by clarifying which sectors are closed to foreign and/or domestic investors. The government's master plan to accelerate and expand the economy.

(MP3EI), which has created a road map for continued growth, along with anticipated reforms in the banking and financial sectors are also encouraging.

To provide service for foreign companies investing in Indonesia, the government has established One-Stop Integrated Services (Pelayanan Terpadu Satu Pintu or PTSP) which was initially outlined in Presidential Decree No. 27 of 2009 (June 23, 2009). It is considered one of the most important improvements in enhancing public service for investment administration. In theory, investors only need to go to one government agency to process all business license applications. PTSP is intended to cut the bureaucratic and compli-

cated procedures and allow investors to process business licenses faster.

Head of the BKPM, Gita Irawan Wirjawan said during Marketing Investment Indonesia (MII) 2011 in Russia that the low of Russian investment in Indonesia is the weaknesses of the Indonesian side. Approaching of Russian investors to Indonesia still not in the right track and weak in implanting human resources. This is markedly different from the United States of America. Despite the global crisis, foreign investment from USA raise significantly in Indonesia. In 2000-2010, total investment of USA in Indonesia reached 3,540 million dollars, or the fifth. Russian investment in Indonesia are very small value and lower ranks, but as one of the world's economic powers Russia has considerable potential to increase its investment in Indonesia to "The Big Ten".

According to the Capital Investment Coordinating Committee in Russia, within the period from 2000 to 2010, the Russian companies invested in the Indonesian economy 0.56 million US dollars. Meanwhile, data from Indonesian Investment Coordinating Board (BKPM) in 2011-2013, total direct investment from Russian to Indonesia was as follows: US\$ 1.5 million in 2011 for 3 projects, US\$ 0.4 million in 2012 for 3 projects and US\$ 1.6 million for 12 projects. In this regard, Total of Russian FDI in Indonesia from 2000-2013 was for US\$ 4,1 million. Russian investment potentials to Indonesia is relatively not big (Russia constitutes the 28th biggest investor in FDI in Indonesia).

Indonesia collaboratively cooperates with Russia for investment in a number of industries to narrow down the trade balance deficit with

the country. The cooperation discussion is contained in the 9th session of the intergovernmental Indonesian-Russian joint commission on trade, economic, and technical cooperation. Indonesia invited Russian Side to participate in infrastructure projects under the Master Plan on the Acceleration and Expansion of Indonesia's Economic Development (MP3EI). Indonesia also invited Russian investors to bid for a renewable energy project in Batam and a geothermal plant in West Java and smelter mineral ore industry. In transportation and infrastructure, both countries agreed to accelerate the construction of a coal train in East Kalimantan province. Both countries agreed to boost investment with incentives such as tax allowances.

Indonesia's coordinating minister for economic affairs, Hatta Rajasa following the 9th session of Joint Commission between Indonesia and Russia said that Russian investment to Indonesia will increase in 2014 with US\$ 5 billion-US\$ 6 billion. Russian Railways, Russia's largest railway and locomotive company, is investing about US\$ 2 billion on a railway in East Kalimantan and Rusal, one of Russia's largest aluminum producers, has also agreed to invest up to US\$ 3 billion to build an alumina plant in West Kalimantan. Besides, Kamaz, Russia's largest truck manufacturer is also planning to build an assembly plant for its vehicles in Indonesia and Vi Holding, one of Russia's largest mining groups is considering investment in bauxite and nickel. Furthermore, Dmitry Rogozin, deputy prime minister of the Russian Federation, said that Russia sees big potential for further economic partnership with Indonesia. He added that Indonesia and Russia are also discussing a potential partnership in the aerospace industry, involving transfer of knowledge in aero

navigation and aircraft maintenance.

In connection with an alumina plant project in West Kalimantan, United Company Rusal, the world's largest aluminum company signed a memorandum of understanding with its Indonesian partner Arbaya Energi. Arbaya is part of Satmarindo Group, which is controlled by Suryo Bambang Sulisto who is also chairman of the Indonesian Chamber of Commerce and Industry (KADIN).

f. Conclusion

1. As a coordinator of foreign relations among government's institution based on Act No. 37 of 1999 concerning Foreign Relations has strived to enhance bilateral economic relations between Indonesia and other countries. In this case, the Ministry of Foreign Affairs and Indonesian overseas mission in Moscow should disseminate information in Russia on Indonesian Investment potentials, the government's investment-related policies and measures to improve Russian businessmen and investor doing business in Indonesia. These tasks will support national development and economic growth of Indonesia.
2. Indonesian diplomats need to overcome the challenges and prospect of bilateral economic relation between Indonesia and Russia and master all requirements for promoting trade and investment abroad. Moreover, knowledge about Russian market and network in his/her duty, particularly in identifying potential investors.
3. Indonesia shall maintain close cooperation and communication among relevant domestic stakeholder such as MFA, Coordinating Ministry for Economic Af-

fairs, Ministry of Trade, Ministry of Industry, BKPM, Indonesian Chamber of Commerce and Industry (KADIN), Provincial Government and business society to implement the 9th Indonesian – Russian Joint Commission on trade, economic and technical co operation including Working Group on Trade, Industry and Investment.

4. Indonesia needs to improve export performance to Russia and put emphasis on how to produce value added products to generate higher revenues.
5. Improved bilateral economic relations on trade and investment and joint project as well as improve the mechanism of bilateral economic relations (such as improving the legal and contractual framework, reducing bureaucratic constraints, develop government assistance to the entrepreneurs, and direct transport links from Indonesia to Russia).
6. Conduct a through market research in order to obtain the most extensive information about the demand of the Indonesian export products that have entered the Russian market. That information should contain specific data such as: type of product, volume of import, country of origin, means of distribution, regulations, tariff and non-tariff barriers, and other statistics.
7. In order to implement the bilateral cooperation, is necessary to lengthen the multiple entry visas for Russian business representative to one year.
8. The exchange of information should also be done between chamber of commerce between both countries. This is important to bridge contact and networking of the two countries' chamber of commerce. It also encouraged to building a direct contact between

members of chamber of commerce of both countries by exchanging information on business proposals and participations of international potential exhibitions. The exchange of information is also needed to provide market penetration of Indonesian products to Russian Federation as well as to extend Indonesian market in Russian Federation and vice versa.

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