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Department of Foreign Affairs and Trade



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Australian Trade and Investment Commission



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Joint Standing Committee on Trade and Investment Growth

Inquiry into the growth potential in Australia's trade and investment relationship with Indonesia

Submission by the Department of Foreign Affairs and Trade, Australian Trade and
Investment Commission, Export Finance and Insurance Corporation and Tourism Australia

31 March 2017

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Glossary

A2ELP	Australia-ASEAN Emerging Leaders Program
AAC	Australia-ASEAN Council
AANZFTA	ASEAN-Australia-New Zealand Free Trade Area
ABARES	Australian Bureau of Agricultural and Resource Economics
ACFTA	ASEAN-China Free Trade Agreement
AFAS	ASEAN Framework Agreement of Services
AIBC	Australia Indonesia Business Council
AII	Australia-Indonesia Institute
AIPEG	Australia Indonesia Partnership for Economic Governance
AIP-Rural	Australia Indonesia Partnership for Rural Economic Development
AIYEP	Australia Indonesia Youth Exchange Program
ATIGA	ASEAN Trade in Goods Agreement
BPP	Business Partnerships Platform
BPS	Badan Pusat Statistik (Indonesia's Central Statistics Agency)
ChAFTA	China-Australia Free Trade Agreement
CIE	Centre for International Economics
ECA	Export Credit Agency
Efic	Export Finance and Insurance Corporation
ELICOS	English Language Intensive Courses for Overseas Students
EMDG	Export Market Development Grants
ETM	Elaborately Transformed Manufactures
FDI	Foreign Direct Investment
GPF	Government Partnerships Fund
IABC	Indonesia Australia Business Council
IA-BPG	Indonesia Australia Business Partnership Group
IA-CEPA	Indonesia-Australia Comprehensive Economic Partnership Agreement
ICT	Information and Communications Technology
IndII	Indonesian Infrastructure Initiative
IMV	International Media Visit
MEP	Muslim Exchange Program
MIKTA Group	Mexico, Indonesia, Republic of Korea, Turkey and Australia
MYEFO	Mid-Year Economic and Fiscal Outlook
NCP	New Colombo Plan
RCEP	Regional Comprehensive Partnership Agreement
SME	Small-to-Medium Enterprise
STM	Simply Transformed Manufactures
TRIEC	Trade Import and Export Classification
UNCTAD	United Nations Conference on Trade and Development

Terms of Reference:

Inquiry by the Joint Standing Committee on Trade and Investment Growth into the growth potential in Australia's trade and investment relationship with the Republic of Indonesia

Submission by the Department of Foreign Affairs and Trade, Australian Trade and Investment Commission, Export Finance and Insurance Corporation and Tourism Australia

On Tuesday, 29 November 2016, the Minister for Trade, Tourism and Investment, the Honourable Steven Ciobo MP, asked the Joint Standing Committee to inquire into, and report on, the growth potential in Australia's trade and investment relationship with the Republic of Indonesia.

The following submission is made by the Department of Foreign Affairs and Trade, Australian Trade Commission (Austrade), the Export Finance and Insurance Corporation (Efic) and Tourism Australia. The submission provides an overview of Australia's trade and investment relationship with the Republic of Indonesia with consideration of the inquiry's terms of reference:

- Australia's existing trade and investment relationships with Indonesia
- barriers and impediments to trade and investment with Indonesia for Australian businesses, including examination of supply chain costs
- emerging and possible future trends
- opportunities for deepening existing commercial and cultural links, and developing new ones, with Indonesia
- the role of government in identifying new opportunities and assisting Australian companies to access existing and potential opportunities in Indonesia
- the contribution of diaspora communities to Australia's relationships with Indonesia
- profit and payment repatriation structures for Australian businesses operating in Indonesia.

Executive Summary

- i. Australia and Indonesia enjoy a wide-ranging relationship, encompassing extensive political, security, commercial, development and people-to-people links. These linkages have been expanded and strengthened in recent years, reflecting a shared commitment to advancing cooperation between the two countries, including in a variety of bilateral and regional fora.
- ii. However, while Indonesia is our largest neighbour, a fellow G20 member and important regional partner, the bilateral trade and economic relationship falls short of its potential. Despite an economy that comprises more than a third of total ASEAN GDP, Indonesia was only Australia's 13th largest trading partner in 2015-16, behind smaller markets such as New Zealand, Thailand and Malaysia.
- iii. The relatively modest size of the economic and trade relationship can be partly explained by our historically similar export profiles and markets, and the challenges faced by Australian exporters and investors in doing business in Indonesia. Indonesian policies are often geared towards 'self-sufficiency', with measures that aim to encourage domestic production. Indonesia maintains tariffs and several non-tariff measures, including variable customs procedures, red tape and import-licensing arrangements, which create complexity for Australian exporters and investors.
- iv. Despite the challenges, there are significant opportunities for greater trade, commercial and cultural links between Australia and Indonesia. If current trends continue, Indonesia will move from being the 16th largest economy into the top 10 by 2030, and be the fourth largest by 2050. By 2030, around 70 per cent of Indonesians will be of working age, supporting a consuming class of around 135 million people and business opportunities worth approximately \$US1.8 trillion. The rapid growth and evolution of Indonesia's economy will see a huge increase in demand for services such as healthcare, tourism and education and quality agricultural products, all of which Australia is well-placed to provide.
- v. Recognising the gains to be made from closer economic ties, Australia and Indonesia have been working to progressively address barriers and capitalise on opportunities through trade agreements. Principal among these is the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), which builds on the gains made under the ASEAN-Australia-New Zealand Free Trade Agreement (currently under review by parties) and the ongoing Regional Comprehensive Economic Partnership (RCEP) negotiations, involving the ten ASEAN countries and FTA partners.
- vi. IA-CEPA aims to go beyond a traditional free trade agreement (FTA), opening up new opportunities for the trade in goods, services and investment. IA-CEPA will liberalise the current trading environment through traditional free trade agreement components such as addressing tariff barriers, building more trade facilitative processes, and improved conditions for our services suppliers and investors. IA-CEPA also has the potential to provide a framework for a dynamic economic partnership with Indonesia, including by promoting mechanisms in the final agreement that build cooperation immediately and into the long-term.

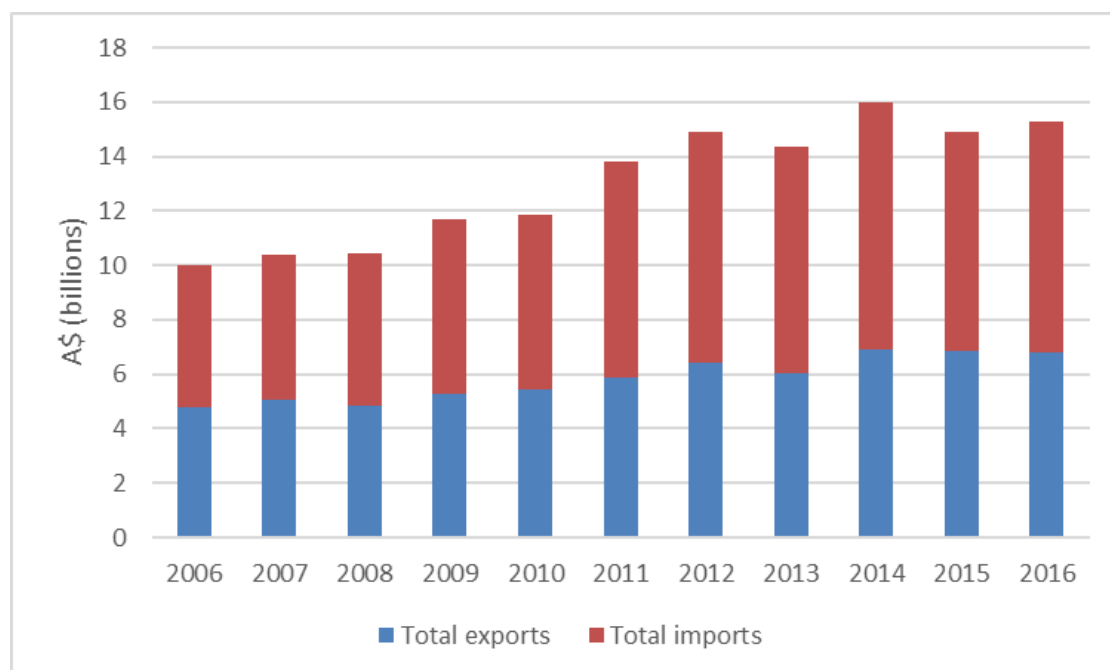
- vii. In addition to leading Australia's negotiations on IA-CEPA, the Department of Foreign Affairs and Trade (DFAT) leads broader whole-of-government efforts to strengthen the bilateral economic and trade relationship. This includes cooperation with Indonesia in regional and international organisations such as APEC and ASEAN, facilitating people-to-people links, and a wide range of economic partnership activities provided through the Australian aid program. Through this partnership, DFAT works with Indonesia to address fundamental constraints in areas such as infrastructure, institutional reform, governance and human development. This support promotes sustainable and inclusive economic growth, which, in turn, provides enhanced opportunities for trade and investment.
- viii. These efforts are complemented by DFAT's portfolio agency partners. The Australian Trade and Investment Commission (Austrade) has a large presence in Indonesia and supports Australian businesses exporting to and investing in Indonesia, promotes key Australian service sectors such as education and tourism, and encourages Indonesian foreign direct investment in Australia. The Export Finance and Insurance Corporation (Efic) supports Australian businesses in Indonesia by providing financial assistance, particularly for SMEs, and Tourism Australia works with a number of key distribution, airline and bank partners to promote Australia as a tourist destination.

Chapter 1: Australia's Existing Trade and Investment Relationship with Indonesia

1.1 Two-way trade

1. Australia's trade with Indonesia has grown steadily since the early 1970s. From 2005-06 to 2015-16, the value of two-way goods and services trade increased at an average annual rate of 5.1 per cent, during which time Indonesia posted a modest but overall growing trade surplus with Australia¹. In 2015-16, Australian two-way trade in goods and services with Indonesia was worth \$15.3 billion, down slightly from the historic high of \$16 billion in 2013-14. Indonesia was Australia's thirteenth largest trading partner in 2015-16, behind the larger markets of China (1st) and Japan (3rd), but also the smaller markets of New Zealand (6th), Thailand (8th) and Malaysia (11th).

Figure 1. Australian two-way trade with Indonesia (FY 06-16)



1.2 Goods Trade

2. Indonesia, like Australia, is largely a commodity exporting economy, with resources featuring prominently in its export profile. Along with a range of other policy factors, this partly explains the relatively small two-way trade in goods and the dominance of agricultural products among the top Australian goods exports to Indonesia.

1.2.1 Australian Goods Exports

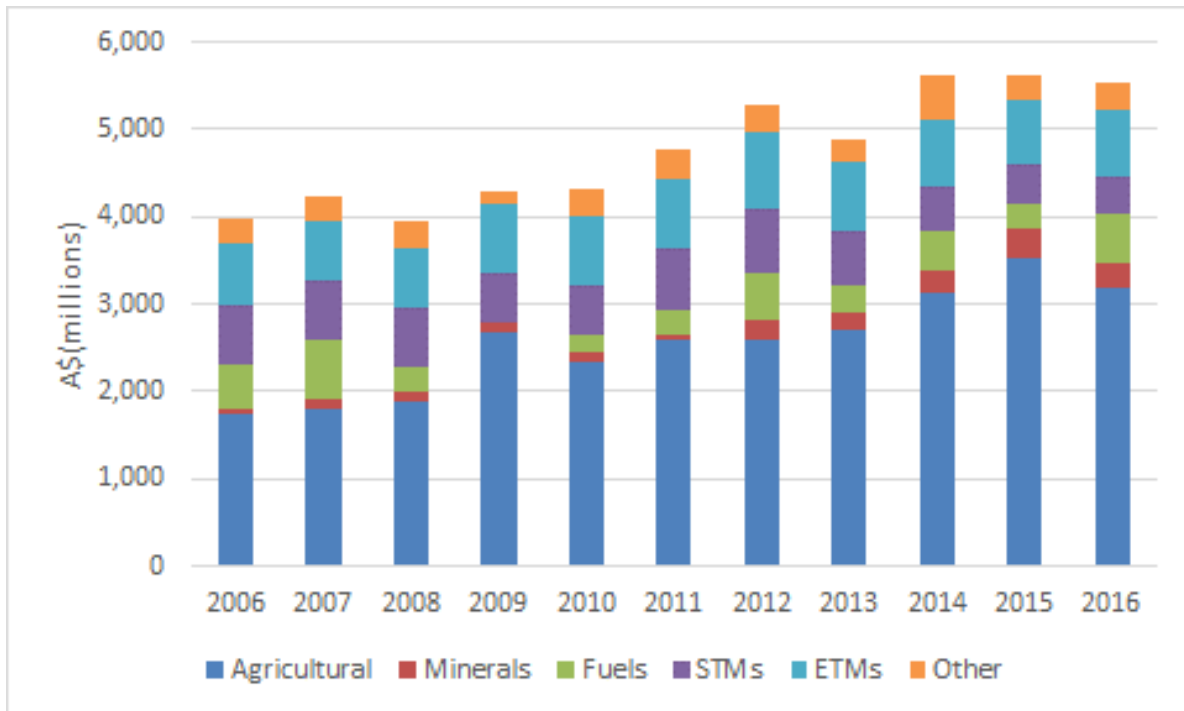
3. The value of Australia's goods exports to Indonesia grew by 39 per cent between 2005-06 and 2015-16, well below Australia's global goods export growth rate of 58 per cent over

¹ Australia and Indonesia's trade statistics do not include the same items. Indonesia does not always include oil, gas and services, which results in a trade deficit in Australia's favour.

the same period. In 2015-16 Australian goods exports to Indonesia were worth just over \$5.5 billion. In 2015-16 Indonesia was Australia's 10th largest goods export market, a marginal improvement on 2005-06 when Indonesia ranked 11th.

4. From a sectoral perspective, agriculture dominates Australia's goods exports to Indonesia: in 2015-16, agricultural sector exports were worth \$3.2 billion, and accounted for 58 per cent of total goods exports. Australia's top three goods exports to Indonesia in 2015-16 were agricultural commodities — wheat, live animals and sugar.

Figure 2: Australian goods exports to Indonesia (FY06 – FY16)²



5. Wheat has been Australia's largest goods export to Indonesia over the past decade, with Indonesia also representing Australia's largest global wheat market during that time. In 2015-16, wheat exports to Indonesia were valued at \$1.1 billion, more than twice the value of Australia's second largest wheat market for that year—China. Indonesia consistently remained Australia's largest market for live animals between 2005-6 and 2015-16. In 2015-16, Australian live animal exports to Indonesia ranked second behind wheat and were valued at \$586 million. Indonesia is also an important sugar market for Australia. Australian exports of sugar to Indonesia was worth \$479 million in 2015-16. Boxed beef is another growing agricultural export. Between 2005-06 and 2015-16, boxed beef exports grew on average 18 per cent per year from \$41 million to \$315 million.

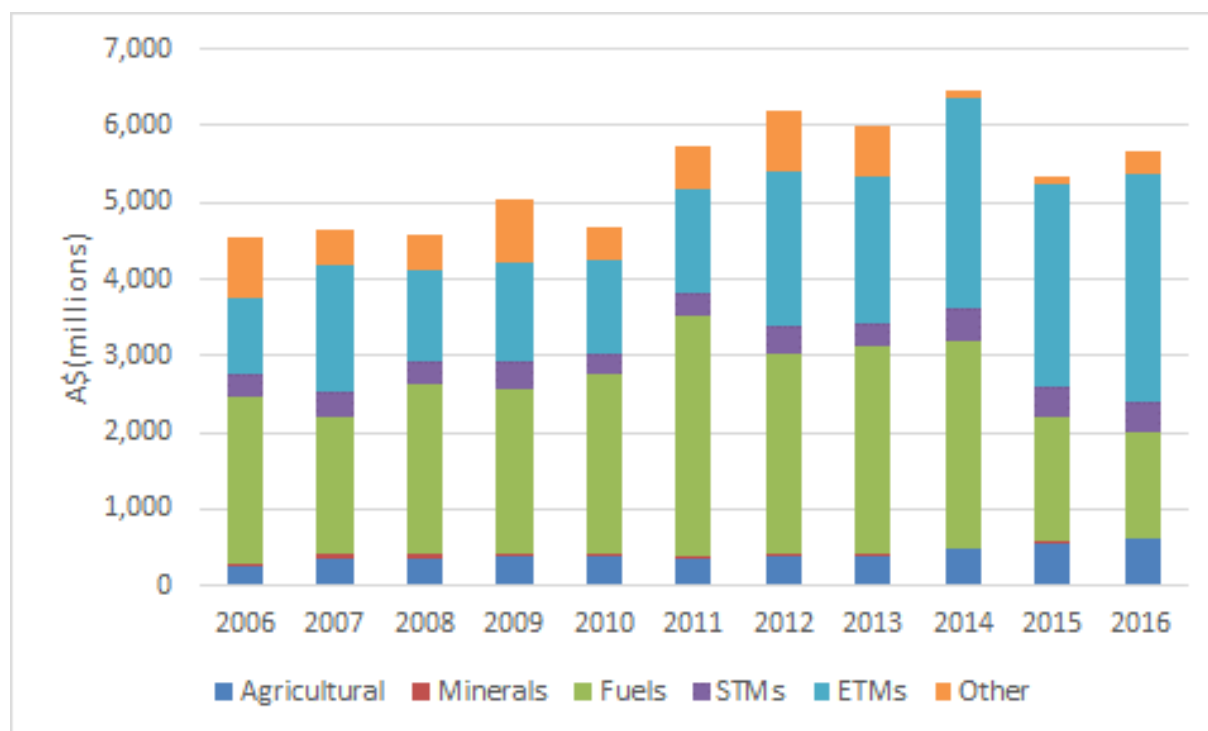
² DFAT Trade Import and Export Classification (TRIEC) data tables are used to define broad sectors: Agriculture, Minerals, Fuels, Simply Transformed (STM) and Elaborately Transformed (ETM) Manufactured products and Other goods. The Agricultural sector includes TRIEC codes 111 Primary products – Unprocessed – Food & Live Animals, 114 Primary products – Unprocessed – Other, 121 Primary products – Processed – Food, 124 Primary products – Processed – Other. The Minerals sector includes TRIEC codes 112 Primary products – Unprocessed – Minerals and 122 Primary products – Processed – Minerals. The Fuel sector includes 113 Primary products – Unprocessed – Fuels and 123 Primary products – Processed – Fuels. STMs and ETMs and Others reflect standard TRIEC groupings 23 Manufactures – Simply Transformed, 24 Manufactures – Elaborately Transformed and 3 Other goods.

6. Australia also exports a number of fuels and elaborately transformed manufactures (ETMs) to Indonesia such as industrial machinery, paints, and other chemicals. In 2015-16 Australia's fourth largest overall export to Indonesia was crude petroleum valued at \$354 million.

1.2.2 Australian Goods Imports from Indonesia

7. Australia's goods imports from Indonesia grew at an average annual rate of 3 per cent between 2005-06 and 2015-16, from \$4.6 billion to \$5.7 billion. Indonesia was Australia's 12th largest source of goods imports in 2015-16.

Figure 3. Australian goods imports from Indonesia (FY06 – FY16)

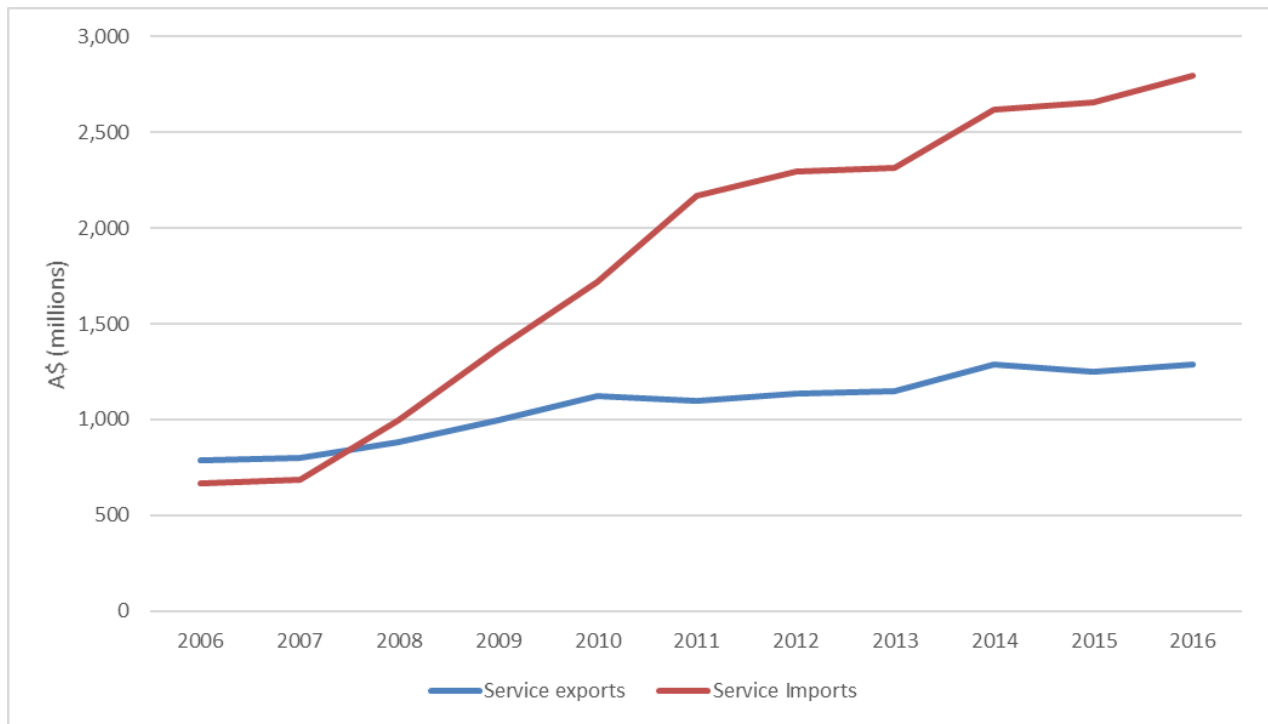


8. Australian goods imports from Indonesia are dominated by fuels and ETMs. Crude petroleum was Australia's biggest goods import from Indonesia in 2015-16, valued at \$1.3 billion. Although imports fell by 3 per cent on average per year since 2005-06, crude petroleum still represented 23 per cent of total merchandise imports in 2015-16.
9. With average growth in imports of 37 per cent annually since 2005-06, specialised machinery and parts imports were Australia's second largest merchandise import in 2015-16. Timber was Australia's third largest merchandise import from Indonesia in 2015-16, while gold was ranked fourth with a value of \$203 million.

1.3 Services Trade

10. Between 2005-06 and 2015-16, the two-way trade in services between Australia and Indonesia grew at an average annual rate of 12 per cent, from \$1.5 billion to \$4.1 billion. During this period, Australia's services imports from Indonesia grew strongly, at an average annual rate of 16 per cent. Having experienced a services trade deficit with Australia of \$121 million in 2005-06, Indonesia now has a \$1.5 billion surplus.

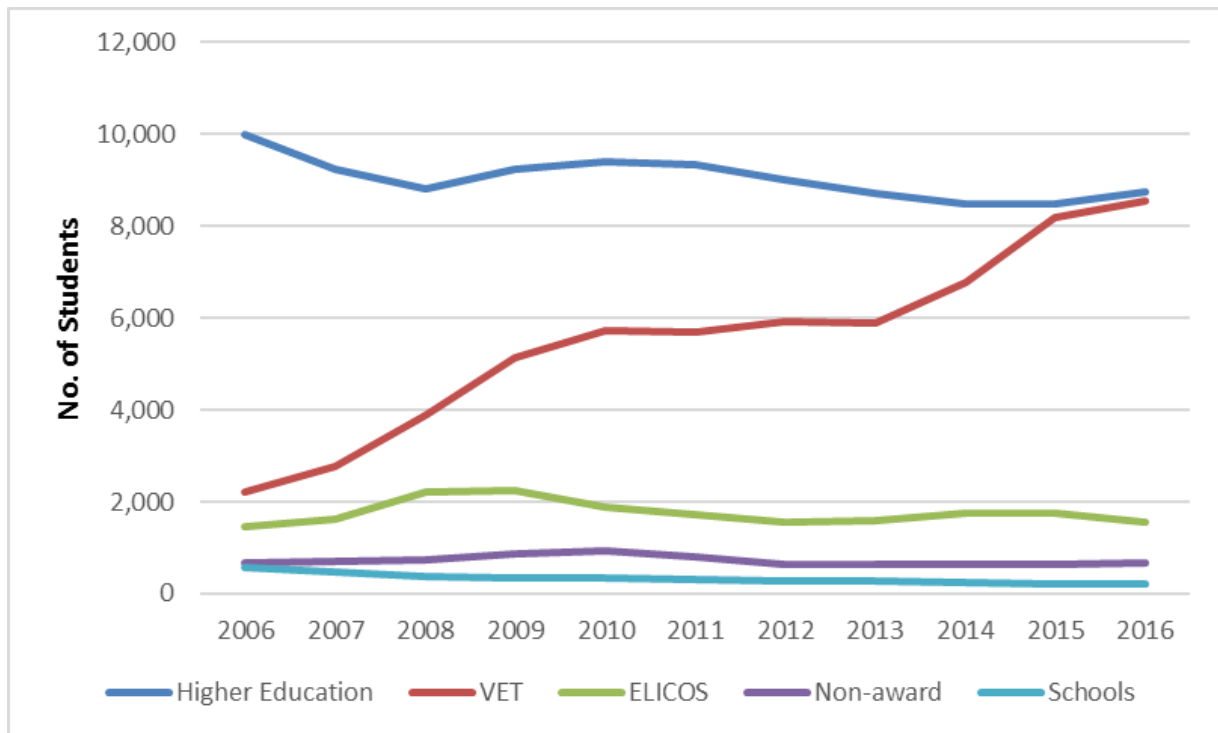
Figure 4. Australia's services trade with Indonesia (FY06-16)



1.3.1 Australian Service Exports

11. Australian service exports to Indonesia were worth \$1.3 billion in 2015-16, having grown on average by 5 per cent annually since 2005-06. Worth \$619 million in 2015-16, education was Australia's largest services export to Indonesia. Overall, travel services exports comprised 72 per cent of Australian service exports in 2015-16, with transport and other business services making up most of the remainder.
12. Australia is the largest destination country for Indonesian students, and in 2016, Indonesia was Australia's 9th largest market for international student enrolments. In 2016, there were 19,731 Indonesian student enrolments in Australia, up from 19,264 in 2015. Reflecting regional competition, higher education has seen declines in average annual student enrolments of 1 per cent since 2006. However, there has been strong growth in Indonesia Vocational Education and Training (VET) enrolments in Australia, which, with growth of 287 per cent between 2006 and 2016, now rival higher education enrolment numbers (see Figure 5). In the VET sector, management and commerce, hospitality and tourism (including food studies), health and information technology were the most popular courses in 2016.

Figure 5. Indonesian student enrolments in Australia



13. Having fallen strongly after the Sydney Olympics and 9.11 terrorist attacks, Indonesia is now one of Australia's fastest-growing markets for international visitors. Since 2005-06, recreational travel exports to Indonesia (i.e. visitors coming from Indonesia), have grown on average by 8 per cent per year, to a value of \$247 million in 2015-16. For the year ending December 2016, 174,400 Indonesians visited Australia, an increase of 14 per cent year on year. The holiday segment increased by 58 per cent during this time.

1.3.2 Australian Service Imports

14. Australian services imports from Indonesia were worth \$2.8 billion in 2015-16. Recreational travel is Australia's largest services import from Indonesia (ie Australians visiting Indonesia). With 1.25 million Australians visiting in 2016, Indonesia is now the second most popular destination for Australian visitors behind New Zealand. Recreational travel imports from Indonesia were worth \$2.2 billion in 2015-16 and accounted for 79% of services imports from Indonesia. Between 2005-06 and 2015-16 the value of Australian recreational travel imports from Indonesia grew by 451%.

1.4 Investment

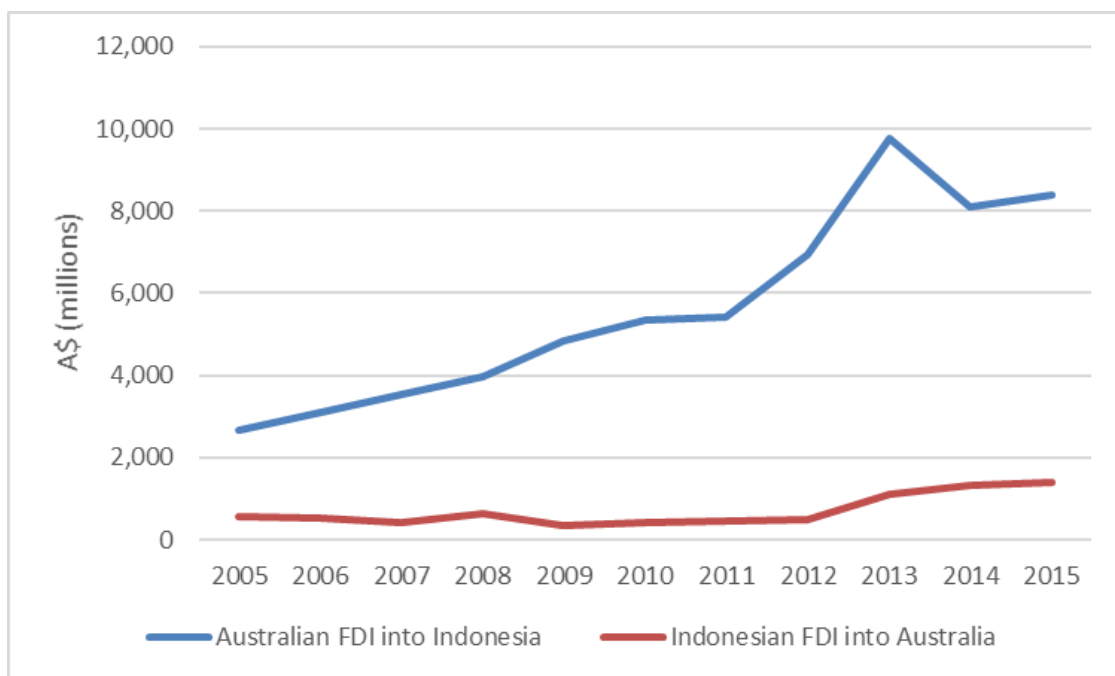
15. The Australian and Indonesian investment relationship is relatively underdeveloped. In 2015 Indonesia ranked 23rd as a destination for Australian outward investment, while Indonesia was well outside the top 25 countries investing in Australia³. However, Australia's stock of investment in Indonesia grew at an average annual rate of 13 per cent

³ Due to data confidentiality and reliability issues, investment rankings beyond the top 25 countries are not made publicly available.

from 2005, reaching \$8.4 billion in 2015. In 2015 foreign direct investment accounted for 66 per cent of Australia's total investment in Indonesia.

16. Australia's current investment interests in Indonesia include mining and energy, financial and professional services, education and agribusiness. Mining firms lead Australia's current foreign direct investment in Indonesia, while infrastructure and capital market investment (by institutional investors) are also of interest for Australian investors.
17. From 2005, Indonesia's stock of investment in Australia grew at an average annual rate of 11 per cent, reaching \$1.4 billion in 2015. Indonesian investors have traditionally preferred domestic, high-return, tax-minimising investments and familiar Asian investment destinations such as Singapore and China. Sectors of interest to Indonesian investors in Australia include property and food manufacturing.

Figure 6. The Indonesia-Australia Bilateral Investment Relationship



1.5 People-to-People Links

18. According to 2011 census data, the number of people living in Australia who were born in Indonesia almost doubled between 1991 and 2011, from 32,596 to 63,159 people. In 2011, New South Wales had the largest population of people born in Indonesia, followed by Victoria, Western Australia, Queensland and South Australia.
19. The Indonesian Government does not have reliable data on the number of Australian-born people living in Indonesia, which makes it difficult to estimate the size of the Australian expatriate population. There are typically around 5,000 Australians registered with Smartraveller as being in Indonesia, but most of these are short-term visitors predominantly to Bali. The Australian Embassy in Jakarta estimates the number of Australians living in Indonesia to be in the order of several thousand people, along with around 500 Australian companies and over 1000 small businesses in Bali involving Australians.

Chapter 2: Barriers and Impediments to Trade and Investment

20. In Indonesia, high tariffs and non-tariff measures, including variable customs procedures, red tape, and import-licensing arrangements are significant obstacles for Australian business. Indonesian policies are often geared towards 'self-sufficiency', notably in the food and agriculture sectors, with measures that aim to encourage domestic production and discourage imports.
21. In a promising development, Indonesian President Widodo has announced the aim of improving Indonesia's position on the World Bank Ease of Doing Business report, targeting a rank of 40. In 2016, Indonesia achieved a ranking of 91, a jump of 15 places over 2015. Despite progress, Indonesia's regulatory environment remains uneven.

2.1 Tariff Barriers

22. Like most countries, Indonesia has progressively lowered its import tariffs. The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) continues to reduce these in certain sectors. However, a range of key agricultural exports such as sugar, frozen beef, some horticulture and sheep meat, and some manufactured exports, such as copper cathodes, some iron and steel products and some machinery parts continue to face high tariffs.

2.2 Non-Tariff Measures

23. Indonesia maintains non-tariff measures including quotas, bans, import licensing requirements and pre-shipment inspection for a range of products. Between 2009 and 2015, the number of product-level non-tariff measures on Indonesian imports doubled, expanding the number of products covered by non-tariff measures by over 38 per cent.⁴ This compromises some of the benefits created by reductions in tariffs.
24. Indonesia's import licensing restrictions apply to many goods, including alcoholic beverages.⁵ Indonesia frequently revises import arrangements for a range of other products, such as sugar, live cattle and horticulture. A number of Australian companies have expressed concern about anti-dumping actions affecting their trade with Indonesia. Concern about the transparency of regulations and administration in Indonesia also has an impact on trade and investment prospects. Indonesia's regulations vary for different Australian imports, for example with seasonal permits applied to Australia citrus⁶, unpredictable permits for grapes, and no permits issued for apples, mangoes, melons, bananas or pineapples.

⁴ Stephen V. Marks, "Non-Tariff Trade Regulations in Indonesia: Measurement of their Economic Impact," Australia Indonesia Partnership for Economic Governance, Jakarta, 20 September 2015.

⁵ WTO Secretariat

⁶ Citrus import permits in 2017 only issued for months (January to April) and are outside Australia's peak export season (May and June).

2.2.1 Halal certification

25. Indonesia currently stipulates that Australian abattoirs and meat processing operations seeking to export to the Indonesian market must be approved via a state-based Halal certification protocol. This arrangement, whilst acknowledged as a requirement when servicing Indonesia, has added costs and restricted trade.
26. In September 2014 the Indonesian Parliament passed the Halal Product Assurance Bill (*Law 33/2014*) that will regulate halal certification and oversight for all products sold in Indonesia, including food, beverages, chemicals, pharmaceuticals and cosmetics. However, the implementing regulations are yet to be finalised, which makes it difficult to assess what the impact will be on Australian exports.

2.2.2 Barriers to Trade in Services

27. Australia's exports in education, health, mining, telecommunications, business and professional, financial, tourism and other services into Indonesia are significant but impeded by Indonesia's regulatory regime. Lengthy and costly business licensing, permitting and operating procedures, visa restrictions around expatriate employment and difficulties with governance hamper further growth.
28. Indonesia maintains barriers to services trade in many sectors. Relatively restrictive rules governing legal, accountancy and architecture services, as well as education, telecommunications and construction exist. Australian professionals face challenges in obtaining recognition of qualifications. Indonesia maintains restrictions on services, including limits on foreign equity and nationality requirements. Australian and other foreign educational institutions cannot, for example, establish branches or local campuses in Indonesia.

2.3 Investment

29. The Indonesian Government is keen to secure large-scale international investment, yet despite some reforms, investment attractiveness remains low due to factors including:
 - Limitations on foreign investment, including foreign investment in a number of sectors being either closed or restricted. Many sectors have investment caps that limit foreign investment to a non-controlling shareholding. Investment caps are also subject to change and may apply retrospectively.
 - Limitations on expatriate work visas for service, trading and consulting companies.
 - Additional permits and costs (July 2015) associated with visiting directors, consultants, auditors and lecturers.
 - Shortages of skilled local staff and low levels of labour productivity. While Indonesia has one of the lowest wage costs for manufacturing in US dollar terms in Asia (lower than China, Philippines, Thailand, Malaysia and Vietnam) the advantage is lost when adjusted for labour productivity. Firms also incur large indirect costs due to poor logistics, infrastructure gaps, labour skills shortages and complex business licensing requirements.

2.4 Logistics Costs

30. Logistics costs in Indonesia are estimated at 25 per cent of the cost of manufacturing sales, higher than that of neighbouring countries including Thailand (15 per cent) and Malaysia (13 per cent)⁷. A large proportion of this cost is associated with the need to carry higher inventory levels to accommodate an unreliable logistics chain. Moving freight from Java to Indonesia's outer provinces is hampered by long supply chains, uncertainties in delivery times, and high costs that compensate for mostly empty return voyages.

2.5 Contract Enforcement

31. Weak law and justice institutions constrain opportunities for Australian trade and investment in Indonesia. Transparency International gave Indonesia a score of 37 out of 100 in its 2016 Corruption Perceptions Index, indicating that — at least in the eyes of its citizens and business sector — corruption in Indonesia is more prevalent than in China, India, South Africa and Brazil. Corruption adds an additional barrier to trade and investment for Australian businesses, both in terms of the cost of doing business and — often as importantly — the time and uncertainty.

2.6 Impact of Other Preferential Trade Agreements

32. Australian businesses are currently at a disadvantage to some key competitors given Indonesia's existing trade agreements. Under the ASEAN Trade in Goods Agreement (ATIGA), Indonesia provides preferential access to ASEAN nations. China also has preferential access to Indonesia compared to Australia on a range of goods under the ASEAN-China FTA. Indonesia has been negotiating an FTA with the EU since July 2016. If finalised, this has the potential to further impact the competitiveness of Australian businesses.
33. The ASEAN Framework Agreement of Services (AFAS) allows Indonesia to offer greater market access to service suppliers from ASEAN countries – including through recognition of qualifications in a range of professions, such as accounting. In practice, Indonesian regulations give advantages to ASEAN service suppliers in 20 sectors, including transport, healthcare and tourism.
34. Some of Australia's existing trade agreements also currently provide preferential access to Indonesia's competitors in the Australian market. For example, tariffs on all China's textiles, clothing and footwear exports to Australia are being eliminated under the China Australia Free Trade Agreement.

⁷ "Improving Indonesia's Freight logistics a plan for action." Jakarta: The World Bank.

Chapter 3: Emerging Trends and Opportunities for Deepening Commercial and Cultural Links with Indonesia

3.1 Global Mid-Term Outlook

35. The future trajectory of the Australia-Indonesia trade and economic relationship will be affected in part by prevailing global and regional conditions. Global economic growth has been held at around 3 per cent per year since 2010, around 0.5 of a percentage point weaker than the average for the two decades before the global financial crisis (GFC). Low productivity growth, weak trade and investment growth, and low inflation remain major vulnerabilities for the global economy. The United Nations Conference on Trade and Development (UNCTAD) estimates global foreign direct investment (FDI) flows fell 13 per cent in 2016, reaching an estimated US\$1.52 trillion, as global economic growth remained weak and world trade volumes posted anaemic gains. FDI flows to developing economies fell 20 per cent in 2016 (to an estimated US\$600 billion), largely on the back of slowing economic growth and falling commodity prices.
36. However, despite heightened uncertainty, there are also some encouraging signs. Australia's December 2016 Mid-Year Economic and Fiscal Outlook (MYEFO) forecasts global growth to pick up from 3 per cent in 2016 to 3.25 per cent in 2017 and 3.5 per cent in 2018. This is in part due to higher forecast growth in the United States and East-Asian economies in 2017 and 2018. The January 2017 IMF World Economic Outlook forecasts US economic growth of 2.3 per cent for 2017 and 2.5 per cent for 2018 (MYEFO: 2 per cent). Economic activity in the ASEAN 5 (Philippines, Indonesia, Malaysia, Thailand and Vietnam) has remained relatively resilient despite subdued global demand. The Indonesian economy has continued to expand, driven by private consumption and public investment, and economic growth in the Philippines and Vietnam has remained strong. Key uncertainties for the global outlook include the policies of the new US administration, the pace of growth in China, the impact of Brexit, and tighter global financial conditions. On the upside, the support to economic activity from policy stimulus in the United States and/or China could turn out to be larger than expected, which could translate to a stronger pickup of activity in their trading partners (including Australia and Indonesia). Upside risks also include higher investment if confidence in the recovery of global demand strengthens.

3.2 Indonesia's Economic Outlook

37. Despite the challenges outlined in chapter two, there are significant opportunities for greater trade, commercial and cultural links between Australia and Indonesia. Indonesia's economy has expanded strongly over recent decades. The poverty rate more than halved from 23 per cent during the Asian Financial Crisis to 11 per cent in 2014. Indonesia's Central Statistics Agency (BPS) reported growth of 5.02 per cent for 2016, with growth predicted to be in the region of 5.2 per cent for 2017. Indonesia is the third fastest growing economy in the G20 (behind India and China)
38. Indonesia accounts for more than a third of total ASEAN GDP. Positive growth during the global financial crisis (GFC), compared to the turbulence caused by the Asian financial

crisis, illustrates a new resilience to external shocks. While there are important caveats, Indonesia's future economic outlook remains relatively upbeat out to 2030. Based on current trends, Indonesia will move from the 16th largest economy in the world to the ninth largest by 2030, and fourth largest in 2050. A PWC report (February 2017) expects average annual growth of over 6 cent per annum out to 2050, Global Insights estimate annual growth ranging from 5.1 to 6.1 per cent per annum and the US Department of Agriculture expect annual growth between 4.4 and 5 per cent.⁸

39. To fully realise its potential, Indonesia will need to continue structural reform and improve its governance and business climate. The tendency to look inward for growth, change laws unexpectedly and restrict trade to protect local industry are all areas where continued reform would bring significant long-term gains.

3.3 Growing Opportunities with a Growing Economic Power

40. Asia is predicted to be home to around two thirds of the world's middle-class by 2030, fuelling demand for resources and commodity exports from both Indonesia and Australia. Under conservative assumptions, Indonesia itself will have a consumer class of 135 million people by 2030.⁹ This would support domestic consumption and represent the largest growth in consumers aside from China and India.
41. Indonesia's urban population could reach 63 per cent in 2030, up from 51 per cent in 2012, with much of the movement anticipated to occur outside of Jakarta. Cities with populations between 150,000 and 10 million people (such as Surabaya, Medan, Makassar and Yogyakarta) will grow faster than Jakarta and contribute more to the economy. These cities are predicted to contribute around 63 per cent of GDP in 2030, compared to Jakarta's 19 per cent. Indonesia has one of the youngest demographic profiles in the world, with 53 per cent of its 257.6 million people below the age of 30. With continued population growth, around 70 per cent of the population are expected to be of working age by 2030.
42. As Indonesia's economic weight grows, and more of its people enter the consumer class, business opportunities in Indonesia will continue to grow. McKinsey (2012) estimates that Indonesia could offer private-sector business opportunities worth approximately \$1.8 trillion by 2030. As wealth grows, Indonesian investors are likely to look to countries offering stable economic returns, particularly in industries with links to their domestic economy, including, for example, food and agriculture.

3.3.1 Opportunities in Goods

Agriculture

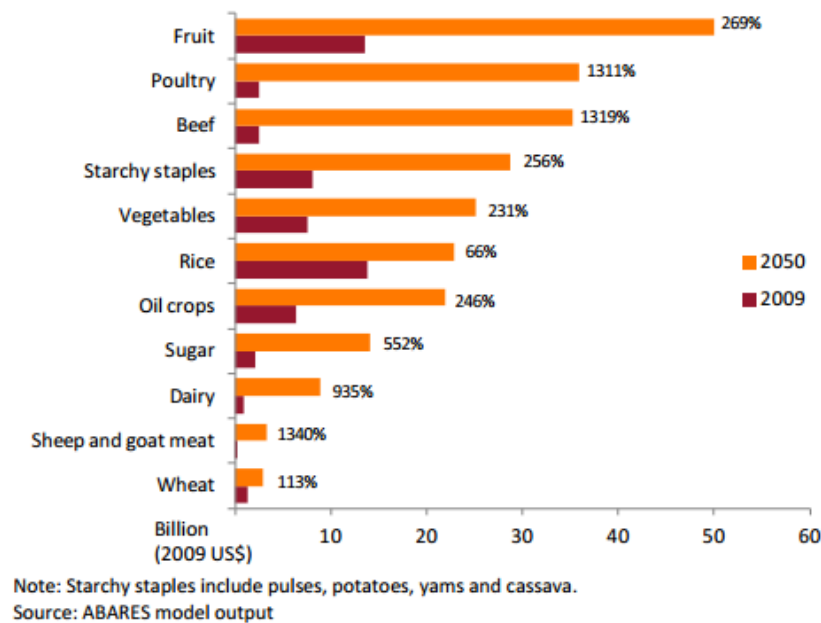
43. Indonesia is an important market for Australian agriculture. This importance should increase as Indonesia's economy and middle class grow. In an analysis of Indonesia's food demand to 2050, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES 2015) anticipates that economic, population and urbanisation growth

⁸ The forecasts come from McKinsey (2012), PWC (2017) and USDA figures from November 2016.

⁹ The consuming class is defined as individuals with an annual net income of above \$3,600 at 2005 PPP.

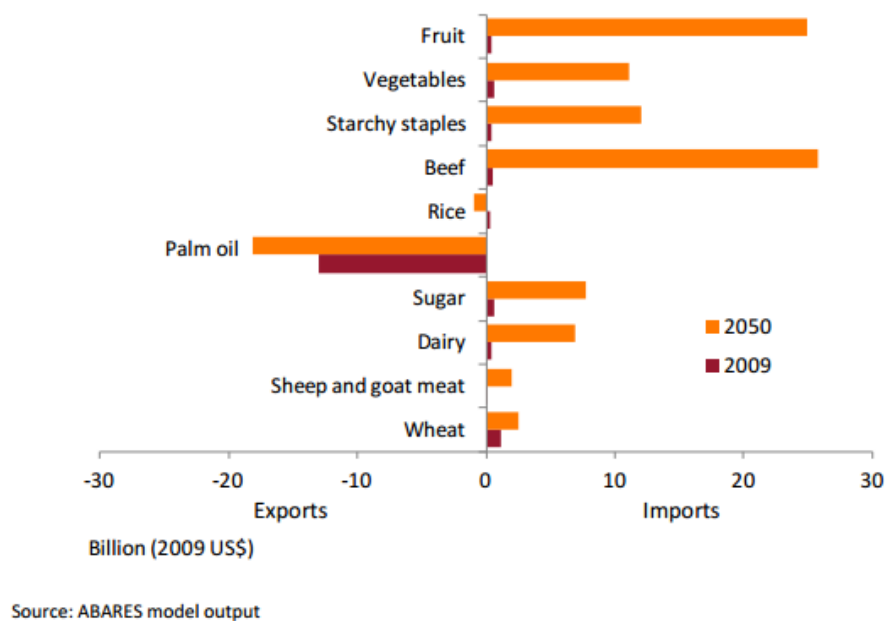
will result in a quadrupling of the value of agricultural food consumption from 2009 levels (see figure 7).

Figure 7. Agrifood consumption in Indonesia 2009 versus 2050 forecasts



44. While there is potential for Indonesia to increase its food production and productivity, Indonesia's domestic agricultural sector will face challenges to satisfy the country's growing food demands (see figure 8). There are opportunities for Australian agricultural goods to supplement Indonesia's demands for quality agricultural products, and to be used as inputs for Indonesian manufactured food products.

Figure 8. Agrifood exports and imports for Indonesia: 2009 versus 2050 forecasts



45. There are distinct opportunities for collaboration between Australian and Indonesian agri-food business to access third markets. Already Australian wheat is already used as a crucial input for Indonesia's noodle production, which is then exported to the region. As the region continues to grow these opportunities should expand.

Consumer goods

46. Indonesia's rapidly expanding middle class represents opportunities for Australian exporters of consumer goods. For example, the rising demand for premium goods has boosted the growth of imported cosmetics and skin care products. Sales of imported cosmetics in 2015 reached US\$441 million and accounted for more than 60 per cent of cosmetics market share in Indonesia.

Manufacturing and specialised equipment

47. There is scope for Australian manufactured and industrial goods to be used as inputs or intermediate products in Indonesian manufacturing, which is increasingly targeting Asian markets.
48. The medical devices technology market in Indonesia is forecast to pass US\$1 billion in 2018. Around 85 per cent of the medical equipment and services market is comprised of imports. Business opportunities primarily exist in surgical equipment, high-intensity focused ultrasound, radio immunotherapy and clinical laboratory equipment used for diagnostic tests, particularly for molecular diagnostics, microbiology, and immunochemistry and genetics testing.
49. There is also scope for Australian innovations, including in the resources sector where Australian companies already supply specialised underground mining equipment.

3.3.2 Opportunities in Services

50. Increased services trade represents the biggest potential for growth partnerships between Indonesian and Australian businesses. There are significant synergies between the services sectors that Indonesia is prioritising for future growth, and the sectors in which Australia has expertise. Australia's strengths match Indonesia's priorities in agriculture, education, health care, mining, professional, financial and tourism services. In many of these areas Australian exports are showing signs of growth, but there is huge potential for further growth that would help lift productivity across sectors in Indonesia.

ICT, E Commerce and Fintech

51. Indonesia's digital innovation sector is rapidly evolving, with increasing technical literacy especially among younger age groups. The rate of internet access is rapidly growing: smartphones are the key platform, with more than 280 million SIM cards in use across the archipelago.
52. E-commerce is growing rapidly in Indonesia. Current government forecasts estimate a surge in e-commerce spending from US\$6.9 billion this year to US\$14 billion by 2020. E-commerce is growing between 40-50 per cent annually - making Indonesia one of Asia's more attractive destinations for digital investment. There are opportunities for firms ready

to bring in capital, technology and security solutions to partner with local companies to launch their own e-commerce arm.

53. Financial technology services (FinTech) continues to develop rapidly in Indonesia. Total FinTech transactions in Indonesia are estimated to reach US\$37.15 billion by 2021. The Indonesian Government has identified close to 100 local FinTech companies with the potential to help Indonesia's banks, small medium enterprises and non-banking financial institutions. The Financial Services Authority of Indonesia (OJK) has developed new guidelines to encourage greater FinTech investment in Indonesia, based on Australian templates.

Energy and Resources

54. Indonesian energy demand is predicted to grow strongly over the medium term. Population growth will put extreme pressure on Indonesia's energy infrastructure and make identifying new and unconventional energy sources increasingly important for sustaining growth. The government has already signalled it wants to see a substantial expansion of renewables and oil and gas exploration. Australian companies providing renewable and exploration services will need to continue monitoring developments in Indonesia.
55. As a major producer of thermal coal, tin, nickel and copper, Indonesia offers opportunities for Australian engineering, technology, and mining services companies. Despite 2013-2015 marking a low point in the commodities cycle, Indonesia continued to attract investment and the resources and energy sector remains a strong contributor to overall GDP.
56. Opportunities exist for providers of mining technology services who can clearly demonstrate productivity gains to Indonesian miners. Demand remains strong for mining (and to a lesser degree exploration) software, specialised and innovative equipment, education and training services and specialised mining consulting. The Indonesian mining industry has suffered from considerable skills shortages – creating opportunities for training providers. Mine safety – an area of outstanding Australian capability – also looms large as a growth opportunity for Australian service providers.

Education

57. Australia remains the number one destination for Indonesian university students studying abroad and is forecast to grow at 7 per cent through to 2024. Austrade estimates that there are over 500,000 Indonesian alumni of Australian education institutions, many of whom are now in senior positions in the private and public sectors. Australia is the number one destination for Indonesians studying abroad, with an approximate 25 per cent share of internationally mobile Indonesian higher education students (UNESCO, 2014; Illuminate, 2015).
58. There are also significant opportunities for Australian institutions to partner with Indonesian industry and the education sector to build capacity, develop programs and deliver training in Indonesia. This is especially the case in the VET sector, which Indonesia has identified as a major driver of economic growth and for which it is establishing new policies and partnerships to align skills with industry needs. Australia can become a key

partner by supporting greater links between skills development systems, industry and employers (including Australian employers); engaging with industry to help tailor training to business needs; and developing new industry-led skills development delivery models to meet increased demand.

59. Australian institutions can also tap into opportunities in maritime (port management and safety), engineering-related training (electrical, manufacturing, automotive and mechanical), hospitality (food safety, kitchen operations), tourism (hotel management), health services (allied health and patient care) and training needs in a range of other sectors by providing training in Indonesia and Australia.

Tourism

60. Increased tourism is central to Indonesia's economic growth strategy, which is targeting 20 million visitors by 2020. In response to limited tourism development outside of Bali, the Indonesian government has nominated ten new destinations for development to increase visitation, capitalising on key strengths of price competitiveness, rich natural resources and heritage sites.
61. As a world leader in providing consulting services to grow tourism destinations and innovative attractions and experiences, there are significant opportunities for Australian companies to help develop Indonesia's new tourist areas. Australia's research, marketing, training systems and tourism planning are highly regarded internationally and can readily contribute to growth in Indonesia. There are also opportunities for Australian hotel management businesses, who have a large global footprint and access to well-developed value chains of businesses that provide high-quality products, services and skills to deliver premium visitor experiences.
62. There are significant prospects for growth in visitor numbers and spend by inbound Indonesian tourists to Australia. When choosing a holiday destination, Indonesians value safety and security, value for money, sport and cuisine, world-class nature and welcoming people. In all these categories, Australia performs strongly.

Healthcare services

63. Rising affluence is increasing the demand for high-quality health care. However, as an emerging market with infrastructure constraints and a challenging geography, an increasing number of Indonesians are travelling overseas for medical treatment, spending up to US\$1.2 billion a year. There are opportunities for Australia's world-class healthcare providers and businesses to build capacity across the Indonesian healthcare sector— from the vocational training of doctors, nurses and hospital workers to hospital administration, patient management, after-care and aged care.
64. Over the medium to long term the healthcare IT market is likely to be a major contributor to the sector's growth. Examples of key growth areas are telehealth, telemedicine, electronic medical records, and the use of healthcare mobile applications for point-of-care diagnostics, particularly in remote and rural areas.

3.3.3 Aviation

65. Indonesian domestic air travel is growing at over 5 per cent annually, and in 15 years, will be the fifth largest domestic air travel market globally. In preparation, the Indonesian government has allocated \$5.4b over the next 5 years to upgrade or build 15 airports annually. In mid-2016, Indonesian airlines had 800 new planes on order, and last year had a deficit of 2,500 pilots. Indonesia's demand for international maintenance, repair and overhaul (MRO) services and training, aviation flight training and aviation engineering presents significant opportunity for Australian business to engage in the aviation industry. Australian companies are in discussions around air traffic control management systems and airport scheduling technology.

3.3.4 Maritime

66. As an archipelagic nation there are significant infrastructure needs in the port sector. Planning from large port developers and operators takes in tourism needs as well as inter-island and international connectivity. There are also opportunities for Australian port management capabilities and technology to be overlaid on the port infrastructure.

3.3.5 Global Value Chains

67. The foreign content share of Indonesia's exports is one of the lowest among major economies, partly reflecting relatively high export dependencies on agricultural, food and mining products (OECD-TiVA, December 2016). Australia's supply of products and services (particularly in manufacturing and ICT inputs) that underpin the latter suggests potential for further complementarity to access third markets. Other positive indicators include plant and equipment sales, which, having fallen 6.7 per cent in 2016, should return to 4-6 per cent growth in the next two years. Building capital expenditure grew 5.2 per cent last year, and should lift by 7-8 per cent in 2017 and 2018. Total capex growth is expected to lift to 6-8 per cent in 2017 and 2018 (Castle Asia February 2017 Asia-Pacific Executive Brief).

Chapter 4: Trade Liberalisation

68. The current trade and investment relationship between Australia and Indonesia can be much stronger given the growing complementarities between our economies, Indonesia's growth trajectory and the opportunities a closer partnership and economic integration would provide in accessing the dynamic Asian markets to our north. Deeper economic integration would strongly complement already close strategic, security and political engagement, and help build stronger people-to-people links.
69. Recognising the gains to be made from closer economic ties, Australia and Indonesia have been working to progressively address barriers and capitalise on opportunities through trade liberalisation agreements.

4.1 ASEAN-Australia -New Zealand Free Trade Agreement (AANZFTA)

70. The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) has been in force between Australia and Indonesia since 2012, following Indonesian ratification. Australia committed under AANZFTA to eliminate all tariffs on Indonesians goods by 2020. Under AANZFTA, Indonesia has bound 92 per cent of tariff lines at tariff-free treatment in 2017, which will rise to 94 per cent by 2025, with another four per cent having the tariff bound at 5 per cent or less. However, some products will still face high tariffs. AANZFTA also provides outcomes on services and a regime of investment protections.
71. In addition, AANZFTA provides a platform for economic integration with ASEAN, including through the AANZFTA Economic Cooperation Support Program, an aid-for-trade program funded by Australia and New Zealand. Parties to AANZFTA are currently conducting a General Review to ensure AANZFTA remains relevant to business, and have committed to submitting recommendations to Ministers in 2018. Australia and Indonesia are building on AANZFTA through negotiations of the plurilateral Regional Comprehensive Economic Partnership (RCEP) and bilateral Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA).

4.2 Regional Comprehensive Economic Partnership (RCEP)

72. Australia and Indonesia are both involved in current negotiations for a Regional Comprehensive Economic Partnership (RCEP), which involves the ten ASEAN countries and ASEAN's FTA Partners. Through the negotiation, Australia is seeking to build on AANZFTA and existing ASEAN + 1 FTAs, to strengthen and simplify the regional trade and investment framework. Australia is also seeking to lock in commitments under existing intra-ASEAN agreements and domestic economic reforms already underway.

4.3 Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)

73. In addition, Indonesia and Australia are negotiating an Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). The agreement aims to go beyond a traditional free trade agreement (FTA), increasing coverage for Australian commodities beyond AANZFTA, and opening up new opportunities for services and investment.

74. IA-CEPA aims to liberalise the current trading environment by eliminating and reducing tariff barriers, building more trade facilitative processes, and improving conditions that impede our services suppliers and investors. Through IA-CEPA, Australia is also seeking to establish a framework for an enduring and dynamic economic partnership with Indonesia, including through mechanisms to build cooperation. This will support business in both countries making the most of IA-CEPA outcomes, while providing flexibility to take advantage of changes in trade and investment practices.
75. IA-CEPA negotiations were launched by then Prime Minister Gillard and then President Yudhyono in November 2010. Following a hiatus in negotiations from 2013, the Australian Minister for Trade, Tourism and Investment, the Honourable Steven Ciobo, and then Indonesian Minister of Trade, His Excellency Thomas Lembong, reactivated negotiations in March 2016. Since reactivation, four negotiating rounds and a series of intersessional meetings have been held. In a Joint Statement Minister Ciobo and Indonesian Minister for Trade, Enggartiasto Lukita recommitted to delivering a comprehensive deal before the end of 2017.

4.3.1 Goods

76. Australia is prioritising improved access for Australian goods into Indonesia through IA-CEPA. This includes addressing tariff barriers not addressed by AANZFTA and pursuing more trade facilitative rules and processes. Australia and Indonesia have already announced tariff reductions on important items – Indonesia has committed to reduce tariffs on Australian sugar, while Australia will expedite tariff reductions on herbicides and pesticides imported from Indonesia.
77. Australian business have consistently identified non-tariff barriers as a key challenge in doing business with Indonesia. In the negotiations, Australia and Indonesia have agreed to address non-tariff barriers, including developing a cooperative work program. Australia is also seeking to use IA-CEPA to contribute to greater regulatory certainty and coherence.
78. IA-CEPA goods negotiations include chapters on Customs Procedures, Sanitary and Phytosanitary Measures, and Standards, Technical Regulations and Conformity Assessment Procedures to provide a framework for enhanced cooperation between the parties on these issues.

4.3.2 Services

79. A key goal for IA-CEPA is to open up new services trade opportunities for both countries.
80. As part of the negotiation process, Indonesian and Australian businesses made recommendations to both governments on how to improve the conditions for services trade and investment between Australia and Indonesia. These included establishing improved market access and more flexible arrangements for Indonesian and Australian service suppliers to establish operations; improved access and closer alignment of rules and standards in education, professional services and qualifications recognition; and enhanced arrangements for two-way movement of skilled workers.

81. In addition to working to address these recommendations, Australia and Indonesia are looking for the agreement to promote two-way trade growth in agricultural, education, health care, resources, professional, financial and tourism services.
82. In the context of IA-CEPA, Australia and Indonesia are already working on a range of additional cooperative activities to support closer trade and investment ties, including the Red Meat and Cattle Partnership, exchanges on creative industries, standards mapping and cooperation, and cooperation on financial services.

4.3.3 Investment

83. Businesses in both countries are seeking an improved investment environment including thought reduction in barriers to investment and greater regulatory certainty. IA-CEPA will seek to boost efforts to attract more Indonesian investment to Australia, including Northern Australia. IA-CEPA also provides an opportunity to boost investment flows by seeking greater openness and certainty in the Indonesian market.

4.3.4 Government and Business Engagement for IA-CEPA

84. Stakeholder views are an important input into all of Australia's trade negotiations. In the case of IA-CEPA, over 60 submissions have been made across the negotiating and feasibility study process to date. DFAT also takes public opportunities to brief on IA-CEPA and seek stakeholder views, and, as appropriate, reaches out directly to stakeholders on areas of negotiation. DFAT leads a whole-of-government approach on Australia's international trade negotiations, with relevant departments participating in key areas of the negotiations.
85. The governments of Indonesia and Australia engaged the IA-BPG to produce two joint reports to governments in support of the IA-CEPA negotiations. The IABPG consists of peak industry bodies in both countries and the Indonesia-Australian Business Council and Australia Indonesia Business Council. A joint report from business groups in both countries, to both governments, is a clear indication that business see mutual benefits from IA-CEPA and support its successful conclusion.
86. The IA-BPG provided its second report *Two Neighbours, Partners in Prosperity*, to Trade Ministers in August 2016. This report built on and updated the recommendations contained in the IA-BPG's first report, delivered to governments in 2012. The 2016 IA-BPG report includes 22 recommendations on common themes that could address concerns and opportunities for multiple sectors through cross-cutting actions. The report sets out ambitious goals across the scope of the agreement, including the elimination of all tariffs, opening up of services, freer investment, reduced barriers to trade and greater people-to-people linkages.
87. Government negotiations and the work of the IA-BPG follow a 2009 joint feasibility study on the merits of a bilateral free trade agreement. The feasibility study, which included an independent economic modelling component undertaken by the Centre for International Economics (CIE), examined the potential impact of an FTA. The study found that a bilateral FTA between Australia and Indonesia would provide worthwhile benefits for Australia and that the gains for Indonesia would be of a greater magnitude. The study noted that

Indonesia has higher trade and investment restrictions than Australia and therefore should reap a productivity dividend by removing or reducing them, complementing its domestic economic reform program. Indonesia should also benefit from increased investment flows from Australia: FTAs between developed and developing country trading partners tend to result in larger direct investment in the developing country partner.

Chapter 5: The Role of Government in Identifying New Opportunities and Assisting Australian Companies to Access Existing and Potential Opportunities in Indonesia

5.1 Overview

88. The Australian Government engages systematically on trade and investment issues with the Indonesian government at many levels. A range of government agencies in Australia, together with the Australian Embassy in Jakarta, and Consulates-General in Bali and Makassar, engage with Indonesian counterparts on a range of economic and trade issues. This includes supporting the Prime Minister, Trade, Tourism and Investment Minister, and other key economic ministers engage with their Indonesian counterparts, both bilaterally and through multilateral and regional fora.

5.2 DFAT's role

89. DFAT is the lead agency managing Australia's international presence. At the highest level, DFAT's purpose is to *make Australia stronger, safer and more prosperous by promoting and protecting our interests internationally and contributing to global stability and economic growth, specifically in the Indo-Pacific region*. The department works to improve access to the Indonesian market and generate conditions for increased trade and investment to strengthen both countries' economies and create new higher-paying jobs. DFAT aims to project a positive image of Australia as a preferred destination for business, investment, tourism and study and leads the IA-CEPA negotiations on Australia's side. DFAT also administers the Australian Aid Program, which supports Australia's economic partnership with Indonesia.

5.2.1 Australian Diplomatic Posts

90. Australia's embassies and diplomatic missions have important facilitating roles for business, trade and investment. In addition to supporting engagement by a wide range of government stakeholders, Australia's Embassy and Consulates-General in Indonesia support business in a variety of ways. This includes facilitating business visits and events, supporting business chambers and associations, providing information and advice on doing business in Indonesia and Australia, and supporting trade negotiations.
91. The Australian Embassy in Jakarta is Australia's largest overseas diplomatic mission and hosts a number of Australian Government departments, including the Departments of Foreign Affairs and Trade, Defence, Attorney-General, Immigration and Border Protection, Education, Agriculture and Water Resources, the Australian Trade and Investment Commission (Austrade), the Australian Federal Police and the National Library of Australia. All work together to promote Australia's interests in Indonesia.
92. Recognising the growing opportunities for trade and investment that Indonesia represents, especially in cities outside of Jakarta, DFAT has been working to increase Australia's diplomatic footprint in Indonesia. Together with the Australian Embassy in Jakarta, Australia now has Consulates-General in the tourism hotspot of Bali and Eastern

Indonesia's largest city, Makassar. In February 2017, Prime Minister Turnbull announced Australia would open a third Consulate-General in Surabaya, Indonesia's second largest city.

5.2.2 The Economic Partnership for Growth and Development

93. The purpose of the Australian Aid Program is to promote Australia's national interest by contributing to sustainable economic growth and poverty reduction. The private sector is recognised as the primary source of economic growth, incomes and jobs in developing countries. To reflect the change that Indonesia and its economy have undergone in the last decade to become a middle-income country, Australia's development relationship with Indonesia has evolved from a traditional donor-recipient one, to one of economic partnership. This partnership has three key objectives:
 - effective economic institutions and infrastructure;
 - human development for a productive and healthy society; and
 - an inclusive society through effective governance.
94. Australia contributes to these objectives through a range of activities including by:
 - providing advice and expertise to help Indonesia make the most of its own resources;
 - testing new approaches to development challenges by piloting new ways of working which can be adopted by Indonesia; and
 - working with Indonesia to strengthen the evidence base for policy reforms.
95. Australia engages directly with Indonesian government institutions to improve the quality of their expenditure on development activities, such as infrastructure projects, including through private sector partnerships. In particular, DFAT looks for potential opportunities in Indonesia to collaborate with businesses that will contribute to sustainable economic growth, development, prosperity and poverty reduction. The department is making a number of innovative investments that encourage market-based solutions and utilise new technologies to drive sustainable economic growth and reduce poverty in Indonesia.
96. By *investing in human capital* in Indonesia's education and health sectors, Australia is working with Indonesia to promote inclusive economic growth by improving basic services and employment opportunities and developing a comprehensive social protection system. Through the Empowering Indonesian Women for Poverty Reduction Program, Australia and Indonesia are increasing women's participation in the workforce.
97. Australia works with *Indonesian justice institutions and civil society partners* to help improve the business environment in Indonesia and open up greater opportunities for Australian investment by supporting institutions upholding the rule of law, supporting the reform of key legal constraints to doing business, and reducing corruption.
98. The *Government Partnerships Fund* (GPF) funds government-to-government partnerships to support Indonesia's priority economic reforms through technical expertise and capacity building from Australian government agencies. GPF activities support Indonesia's priorities in tax collection, planning and budgeting, macroeconomic management, financial sector supervision and regulation and bureaucracy reform.

99. The *Australia Indonesia Partnership for Economic Governance* (AIPEG) compliments this support through the provision of technical assistance and capacity building to Indonesian Government agencies working in key economic policy areas. AIPEG directly builds on Australia's extensive and high-level dialogue with Indonesia to encourage macro-economic stability and an improved trade and investment environment for the benefit of both countries. For example, in 2015 Indonesia requested AIPEG technical support on trade related issues, including the regulatory implications and legal modifications required to join the then Trans Pacific Partnership.
100. The *Indonesia-Australia Partnership on Food Security in the Red Meat and Cattle Sector* aims to improve joint competitiveness and prospects for long-term investment and trade between Indonesia and Australia as part of a globally competitive supply chain in the meat and cattle sector. This includes establishment of an industry-government body to provide strategically focused advice and recommendations on areas of priority in the red meat and cattle sector.
101. The *IndoBeef* program aims to significantly improve local beef supply and livelihoods of smallholders and other beef value chain participants in Indonesia. The program is identifying, through collaborative Indonesia-Australia research, systems where smallholder beef production (breeding and fattening) could be commercially viable and support broad scale-up.
102. The *Australia-Indonesia Partnership for Rural Economic Development (AIP-Rural)* aims to increase the incomes of 300,000 rural smallholders in eastern Indonesia by 30 per cent by stimulating greater public and private sector investments that create better access for farmers to inputs and markets.
103. The *Indonesian Infrastructure Initiative (IndII)* has supported the Indonesian government to address constraints on infrastructure investment and alleviate behind-the-border barriers to trade. IndII has provided experts to undertake feasibility studies, cost-benefit analyses, planning documents, engineering and architectural designs, project evaluations, and training on important infrastructure projects. The IndII facility will conclude in 2017 and be replaced by a new Australian-funded technical assistance facility to support infrastructure development in Indonesia.
104. The *Business Partnerships Platform (BPP)* enables quick and simple partnerships between government and business to help deliver Australia's aid program. The BPP allows businesses to approach DFAT with proposals for new or redesigned business initiatives that create new business opportunities in line with Australia's aid objectives in Indonesia. There has been strong interest in the BPP from private sector companies in Indonesia seeking to improve their commercial position while delivering enhanced social and/or economic impact.

5.3 Austrade's Role and Priorities

105. Through Austrade, the government advance's Australia's international trade and education, investment, and tourism interests in Indonesia by providing information, advice

and services. Austrade helps Australian businesses, education institutions and tourism operators as they:

- develop international markets and promote international education;
- win productive foreign direct investment; and
- strengthen Australia's tourism industry.

106. Austrade generates market information and insights, promotes Australian capabilities, develops policy, and makes connections through an extensive global network of contacts, leveraging the badge of government offshore and providing quality advice and services.

107. Specifically, Austrade:

- helps Australian companies to grow their businesses in international markets, including through administration of the Export Market Development Grants (EMDG) scheme and the TradeStart program, and promotes the Australian education and training sector in international markets;
- provides coordinated government assistance to promote, attract and facilitate productive foreign direct investment (FDI) into Australia;
- provides advice to the Australian Government on its trade, tourism, international education and training, and investment policy agenda; and
- develops policy, manages programs and provides research to strengthen Australia's tourism industry and to grow Australia's tourism market share.

5.4 Efic's Role and Priorities

108. The Export Finance and Insurance Corporation (Efic), as the Australian Government's export credit agency (ECA), supports the growth of viable Australian businesses in their international operations by providing tailored financial solutions.

109. Efic's role is to fill the 'gap' in the provision of financial support for exports and overseas investment. In doing so, it works closely with private financiers to provide working capital, bonding, buyer finance, project finance, and medium to long-term insurance products. Efic's products are provided on a commercial basis and only when the private market is unwilling or unable to provide adequate support. Efic's Statement of Expectations (SoE) requires it to focus explicitly on Small-to-Medium Enterprises (SMEs), as this is the section of the market where viable exporters are most likely to be underserved by the private financiers.

110. Historically, Efic has supported Australian exporters to Indonesia across a range of industry sectors. At the close of the 2015-16 financial year, Efic's exposure to Indonesia¹⁰ was \$18.1 million, or 0.9 per cent of total exposure. In January 2017, Efic's exposure to Indonesia was around A\$14.6 million.

111. A core component of Efic's focus on Australian SMEs is assisting them access existing and potential export opportunities. While banks may be unwilling or unable to provide sufficient finance in certain circumstances, Efic's approach to due diligence may enable it to provide support. Efic adopts a more capability-focused approach to due diligence, including an assessment of the terms of the export contract and the exporter's ability to

¹⁰ Exposure is exposure on Efic's Commercial Account.

perform the export. In doing so, it ensures that viable SMEs, that may lack tangible security, can still access finance. Another point of difference is Efic's mandate to assume prudent country risk and support exports to emerging markets, including Indonesia.

112. In fulfilling its role, Efic works closely with private sector financiers and other government agencies and departments; Efic provides a sub-set of an exporter's financing needs and its inability to provide transactional banking means it is not a relationship lender. Efic's core solution is working with banks to ensure SMEs have sufficient working capital to fulfil a contract, either via a loan, guarantee, or the provision of bond(s).¹¹ Efic also works closely with DFAT and Austrade to offer solutions to Australian exporters.
113. Efic is proactive in identifying new opportunities for Australian businesses to help them export to Indonesia. For example, Efic recently collaborated with ten ECAs from around the world to sign a Memorandum of Understanding (MoU) in Bali to facilitate trade in the Asia-Pacific. Pursuant to the MoU, signatory ECAs have formally committed to work together, share information and co-finance projects.

5.5 Tourism Australia's role

114. Tourism Australia is the Australian Government agency responsible for attracting international visitors to Australia, both for leisure and business events. The organisation is active in around 16 key markets and activities include advertising, trade shows and industry programs, consumer promotions, online communications and consumer research.
115. In Indonesia, Tourism Australia works with a number of key distribution, airline and bank partners to promote Australia as a tourist destination. Recent activities include a cooperative campaign with travel search engine Wego, to improve Australia's ranking in online search results across Singapore, Malaysia and Indonesia, and a cooperative campaign with Garuda Indonesia aimed at increasing Indonesian visits to Australia.

5.6 Cooperation in Regional and International Organisations

116. In addition to their membership of the WTO, Australia and Indonesia work together on trade and investment issues through a number of other multilateral and plurilateral fora.
117. As founding member economies, Australia and Indonesia are strongly committed to Asia-Pacific Economic Cooperation (APEC). Australia works with partner economies, including Indonesia, in APEC to facilitate trade and investment throughout the Asia-Pacific region. A current focus of trade facilitation work is examining ways to address bottlenecks impeding supply-chain performance against three critical variables: timeliness, reliability and cost. Australia will collaborate with Indonesia and other APEC economies to devise strategies to overcome these supply-chain bottlenecks.

¹¹ As a condition of their contracts, exporters are often required to provide financial guarantees, or contract bonds (performance, warranty and advance payment bonds). However, providing such guarantees can be challenging. Contracts can be large relative to the SME's balance sheet. Banks may be willing to provide the necessary bonds, but they often require 100 per cent cash (or cash like) security reducing the working capital available to complete the contract. A bank's willingness to provide such bonds is further reduced if the exporter is delivering a product or service in a foreign market. The result is that the SME may be unable to proceed with the export contract (despite being the preferred and most capable supplier) due to the bank's focus on tangible security, rather than technical capability.

118. The MIKTA group, comprising Mexico, Indonesia, Republic of Korea, Turkey and Australia is creating opportunities for Australia to deepen existing commercial and cultural links with Indonesia, and to develop new ones. In 2016, MIKTA officials agreed to work on four priority areas: promoting ratification of the WTO Agreement on Trade Facilitation; Aid for Trade; investment facilitation; and strengthening the global trading system. Also in 2016, MIKTA Foreign Ministers agreed to establish a MIKTA Innovation Group to build relationships and collaboration between innovators across MIKTA.
119. Australia and Indonesia work together through the Association of Southeast Asian Nations (ASEAN) on a range of political, cultural and economic issues affecting our countries and the broader region. In addition, the Australian Government's ASEAN and Mekong Program works to improve trade and investment conditions in South East Asia, including in Indonesia, which is of benefit to Australian businesses. The program (\$29.6m in 2016-17) supports ASEAN's regional economic integration agenda and Australia's aid for trade objectives through the provision of high quality economic research and policy advice in key sectors such as connectivity, trade in services and consumer protection. It also provides capacity-building support for ASEAN countries to maximise the benefits of the Australia-AANZFTA through the AANZFTA Economic Cooperation Support Program.

5.7 Improving People to People Links

5.7.1 The Australia-Indonesia Institute

120. In 1989 the Australian Government established the *Australia-Indonesia Institute* (AII) to contribute to a more broadly based and enduring relationship between Australia and Indonesia. Through its many flagship programs, the Institute aims to increase understanding between both countries and promote strong people-to-people and cultural links.
121. Established in 1997, the annual *Senior Editors' Program* facilitates greater contact between senior media editors from both countries and encourages editors to expand their knowledge and analytical coverage of the other country through alternating in-depth visits. It aims to promote more informed and comprehensive reporting in both countries. In 2016 nine senior Australian journalists visited Indonesia. There will be a Senior Editors Program involving Indonesian journalists visiting Australia later this year.
122. As well as influencing the focus of senior editors, the *Elizabeth O'Neill Journalism Award* (established in 2007) provides upcoming journalists from both countries with an opportunity to foster a better understanding of the other country and encourage more accurate and informed media coverage. Since 2008 nine Australian journalists have travelled to Indonesia and nine Indonesian journalists have travelled to Australia as awardees.
123. Established in 1991, the *Australia-Indonesia Youth Exchange Program* (AIYEP) is similarly an opportunity to shape the views of our future opinion makers and leaders. The program focuses on youth aged 21-25 who spend two months in each other's countries undertaking a program of cultural activities, professional work placements and home-stays with local families in both rural and urban settings. Many participants of the program either

continue a strong association with the other country or change their focus and make a lasting contribution to the relationship through their education and career choices. Around 1,260 youths have participated in the program.

124. Established in 2002, the *Muslim Exchange Program* (MEP) continues to generate positive outcomes. The Program has created a cohort of Australian and Indonesian Muslim community and education leaders who share their increased knowledge of practices and attitudes to Islam, inter-faith initiatives, tolerance and diversity in both countries. In 2016 10 Indonesian Muslim leaders visited Australia and five Australian Muslim leaders visited Indonesia.

5.7.2 Australia Awards

125. Australia Awards Scholarships are an important part of Australia's education assistance to Indonesia. Not only do Australia Awards Scholarships provide Indonesians with a world class qualification, the overall experience that recipients gain while in Australia is invaluable in developing a strong understanding and appreciation of Australian culture and values, fostering people-to-people links and enhancing Australian-Indonesian relations. Many scholarship alumni have gone on to hold positions of influence and have made significant contributions to Indonesia's development. High-profile alumni include Cabinet Ministers Professor Yohana Susana Yembise, Minister for Women's Empowerment and Child Protection, State Secretary Professor Pratikno, former Vice President Boediono and former Finance Minister Chatib Basri.
126. The Australia Awards is the largest and longest-running international scholarship program in Indonesia. There are currently around 900 Indonesian Australia Awards scholarship recipients studying in Australia comprising 650 Masters and 250 PhD students. The Australia Awards program also offers short-term courses delivered by Australian providers to address Indonesian shortages in technical skills in public, private and not-for-profit sector organisations and foster enduring relationships.
127. Since 2015, over 700 Indonesians have participated in short-term award programs, which include both academic instruction and engagement with Australian practitioners in workplace settings. During 2016, short-term awards covered a wide range of subject matter, including sustainable fisheries management, primary and junior secondary teacher professional development, technology-enabled start-ups, malaria treatment and prevention and sustainable tourism for regional growth. Around 500 short-term awards will be offered in 2017 to future Indonesian decision makers and influencers who want to develop new skills and increase their networks through tailored short courses at Australian tertiary institutions.
128. Engagement with alumni (including with those who self-funded their study) on their return to Indonesia continues to be a priority for the program. These efforts aim to foster a stronger alumni network in Indonesia, and a network of advocates for Australia, particularly on the world-class quality of an Australian education.

5.7.3 Building Relationships through Intercultural Dialogue and Growing Engagement

129. Established in 2008, the Australia–Indonesia BRIDGE School Partnerships Project is a DFAT-supported initiative that has established 148 Australia–Indonesia school partnerships and directly involved 592 Australian and Indonesian teachers. This immersive and blended model of professional learning supports school communities across Australia to build an international school partnership with a sister school from Indonesia. The BRIDGE Program uses technology to build links between Australian and Indonesian students and teachers and helps to improve IT capacity of participating schools.

5.7.4 Science and Research Collaboration

130. The Australian Government is helping to foster increasing levels of scientific and research collaboration including through support (\$15 million over four years from 2013–14 to 2016–17) for the Australia Indonesia Centre, hosted at Monash University, with the Australian National University, the University of Melbourne, the University of Sydney and seven Indonesian universities as partners. The Centre aims to promote greater understanding of contemporary Indonesia in Australia and of Australia in Indonesia, to strengthen business, cultural, education, research and community links between the two countries. One of the Centre's key roles is to act as a facilitator of multi-stakeholder research collaboration between Australia and Indonesia to generate solutions to shared national challenges in the energy, infrastructure, health, urban water, and food and agriculture sectors.
131. In 2016, DFAT supported an Australia Indonesia Science Symposium, held at Canberra's Shine Dome from 28 November to 1 December 2016. The Symposium brought together over 100 of Australia and Indonesia's brightest scientific minds to enhance scientific cooperation in health, marine science and climate change, agriculture and big data. The Symposium represented six months of work between DFAT, the Australian and Indonesian Academies of Science and the Indonesian Young Academy of Science and the Early and Mid-Career Researchers Forum. The event enabled new collaborations in research and fostered new policy discussions between Australian and Indonesian government stakeholders on policy instruments to improve collaboration in science and research.
132. The Australian Government also provides support to the Australian National University's Indonesia Project, a leading international centre of research and graduate training on issues concerning the Indonesian economy and society. The need for credible independent voices to advocate on the need for Indonesia to maintain the tempo of its economic reform in the face of domestic calls for greater economic protectionism has never been higher. This remains a key strength of the Project.

5.7.5 The New Colombo Plan

133. By supporting Australian undergraduates to study in Indonesia as well as other locations across the Indo-Pacific, the Australian Government's New Colombo Plan is helping to increase cultural knowledge and understanding, support a greater two-way flow of students, and strengthen people-to-people and institutional ties between Australia and Indonesia. In the first four years (2014-17), around 3,200 New Colombo Plan students have lived, studied and undertaken work-based learning in Indonesia.

134. To date, more students have been supported to study in Indonesia than any other location under the program, with student numbers for Indonesia increasing over time. The initiative is prompting increased collaboration between Australian and Indonesian universities to implement New Colombo Plan programs, which have included short-term and semester-based study, clinical placements, practical section of the course work and internships across a wide range of disciplines. The opportunity for students to undertake internships is a hallmark of the New Colombo Plan, fostering connections between Australian universities, students and businesses.
135. More than 30 organisations in Indonesia have registered internship opportunities on the New Colombo Plan Internship and Mentorship Network, with many other organisations already hosting New Colombo Plan students as interns. By the end of February 2017, over 1,500 students had completed New Colombo Plan scholarships or mobility programs in Indonesia.
136. To encourage their ongoing engagement, the New Colombo Plan Alumni Program is supporting participants to maintain a connection to each other, the program and the Indo-Pacific as they progress in their lives and careers. The Australian Government is also promoting dialogue between young Australians and Indonesians by hosting emerging leaders forums, including involving New Colombo Plan students, and Indonesian students who have studied in Australia under the Government's Australia Awards program.

5.7.6 The Australia-ASEAN Council

137. In 2015, the Foreign Minister established the Australia-ASEAN Council (AAC), which offers opportunities to promote people-to-people links and understanding between Australia and all ten countries of South-East Asia. The AAC Board focuses on knowledge development and is keen to forge partnerships with business and other organisations to further enhance Australia's relationship with South-East Asia. An annual grant round provides opportunities for engagement with Indonesia as a partner along with other ASEAN countries, to develop links between individuals and institutions across a wide range of sectors.
138. In September 2016, the Prime Minister launched the Australia-ASEAN Emerging Leaders Program (A2ELP). It brings together social entrepreneur leaders who are contributing to significant education, health, technology and environmental issues through innovative business enterprises. In 2017 there were two representatives from Indonesia who are considered ambassadors for social entrepreneurship for their country, and will contribute to policy dialogues and business roundtables in the future.

5.7.7 Business to Business Cooperation

139. DFAT and Austrade work closely with the both the Australian and Indonesian business communities to support improved trade and economic relationships between the two countries, including through IA-CEPA.
140. The *Australia Indonesia Business Council* (AIBC) is the peak, Australia-based business association involved with the promotion and facilitation of trade and investment between Australia and Indonesia. The AIBC is a national association with branches in the Australian

Capital Territory, New South Wales, Northern Territory, Queensland, South Australia, Victoria, Tasmania and Western Australia. The Indonesian counterpart organisation to the AIBC is the *Indonesia-Australia Business Council* (IABC), which works closely with the Indonesian Government and the Australian Embassy in Jakarta. Both the AIBC and the IABC have been heavily involved in the Indonesia-Australia Business Partnership Group, established to provide a stronger voice for business in the IA-CEPA negotiations.