



**Submission to the Joint Standing
Committee on Trade and Investment
Growth**

**Growth Potential in Australia's Trade
and Investment Relationship with
Indonesia**

**Cross Cultural Communications and
Management**

Tony Mitchener

1. Introduction

The Minister for Trade, Tourism and Investment, the Hon Steven Ciobo MP, asked the Joint Standing Committee on Trade and Investment Growth on 29 November 2016 to inquire into and report on the '*Growth potential in Australia's trade and investment relationship with Indonesia*'. Public submissions to the Committee are requested by Tuesday, 14 February 2017 in accordance with following Terms of Reference (Box 1). An extension was granted by the Inquiry Secretariat until 17 February 2017 for this submission.

Box 1: AUSTRALIA'S TRADE AND INVESTMENT RELATIONSHIP WITH INDONESIA TERMS OF REFERENCE

The Joint Standing Committee on Trade and Investment Growth shall inquire into Australia's trade and investment relationship with Indonesia. In conducting its inquiry, the Committee shall have particular regard to:

- 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.

2. Cross Cultural Communications and Management

Cross Cultural Communications and Management is a specialist management consultancy based in Canberra that focusses on:

- Facilitating market access and exports for Australian business;
- Assisting higher education providers, registered training organizations and other training providers with their internationalisation agenda;
- Identifying and developing transnational education opportunities for education and training providers;
- Identifying education and training assets in Australia and Asia for acquisition by investors.

The consultancy is led by Tony Mitchener, who has had a varied career as a senior Australian Government official focusing on a range of higher education, training policy and trade issues, including:

- as a Departmental Adviser on vocational education and training to an Australian Government Minister;
- an Australian diplomat in Thailand and Indonesia (where he developed the bilateral education and training relationship, worked closely with education agents, undertook generic marketing of Australian education and represented Australia on multi-lateral education bodies);
- as a Trade and Investment Commissioner to Indonesia;
- as General Manager (South East Asia) for the University of New South Wales based in Indonesia and General Manager International for a large RTO.

Tony was seconded to the Department of Prime Minister and Cabinet (PM&C) in 2012 to work on the rewrite phase of the *Australia in the Asian Century White Paper* and continued at PM&C to assist with implementation of the key pathways.

Tony is the Chair of the ACT Branch of the Australia Indonesia Business Council, is a member of its national executive and a member of the Canberra Business Chamber's International Business Task Force. Tony is also an Asia Link Asia Literacy Ambassador.

3. Australia's Existing Trade and Investment Relationship With Indonesia

It is often noted that the Government to Government links between Australia and Indonesia are generally well developed and sufficiently deep to withstand any short term challenges in the bilateral relationship. It is also been noted that the bilateral relationship of two close neighbours like Australia and Indonesia with distinctly different cultural and historical evolution is also akin to that of a marriage: the partners may not always agree with each, but they stick together for their mutual benefit and in facing common challenges.

The two areas in the Australia and Indonesia bilateral relationship that are 'underdone' include the business-to-business relationship and the people-to-people links.

Business to Business Relationship

The main challenges for the Australia-Indonesia business to business relationship have been and may continue to be:

- the impact of political issues in the bilateral relationships (ie live cattle exports, perceptions of anti-Muslim sentiment in Australia which has caused boycotts of Australian products);
- lack of cross cultural understanding by Australian businesses:
 - Australian business need to appreciate the importance of building long term relationships in order to pursue business opportunities in Indonesia (and elsewhere in Asia);
 - it may take three to four times as long in Indonesia to finalise a deal compared to the US (ie with the 'just do it' mentality);
 - in Indonesia the building of relationships and trust is essential before they agree to consider purchasing or distributing goods or services;
 - the perception that because other countries speak English and 'they seem like us', they will be an easier market to pursue rather than perceived more difficult countries, like Indonesia;
- travel advisories, concerns about terrorism and in general 'bad news' from Indonesia discourages Australian business people;
- the perceived attractiveness of China as a potential market which distracts attention from other markets with often better potential;
- the business and cultural influence of other countries in Indonesia (ie US, China, Germany, Malaysia, Singapore and many Arab countries);
- the lack of awareness of Australian ingenuity in science, technology and innovation;
- concerns about the adequacy of infrastructure development in Indonesia;
- concerns about the ease of doing business, business transparency, corruption, legal processes and often quite arbitrary taxation decisions in Indonesia; and
- the lack of a bilateral free trade agreement (FTA).

IA-CEPA

The Indonesia Australia Comprehensive Economic Partnership Agreement (IA-CEPA) which is currently being negotiated is an opportunity to re-ignite interest in trade with Indonesia. Australian and Indonesian Ministers for Trade have indicated that they would hope to have the IA-CEPA in place by end 2017. The sixth round of negotiations will be held in Canberra from 20-24 February 2017.

The IA-CEPA is more than a FTA as it will also encompass other matters including investment and economic development (ie skills development) issues.

The submission of the Australia Indonesia Business Council (AIBC) to the Inquiry, which is based on the Indonesia Australia Business Partnership Group (IA-BPG) reports to the Australian and Indonesian

Governments, is supported and worthy of detailed consideration by the Inquiry. The IA-BPG reports represent the collective views of the members of the members of the AIBC, the Australia Chamber of Commerce and Industry, the Australian Industry Group, KADIN (the Indonesian National Chamber of Commerce and Industry), APINDO (Employers Association of Indonesia) and the Indonesia Australia Business Council.¹

It is important to Australia's future economy prosperity that there is a concerted effort at the G2G, B2B and P2P levels to enhance our relationship with Indonesia. This assertion is underscored by PwC research which found that by 2050, Indonesia will have moved from the world's eighth largest economy in terms of GDP to the fourth largest economy, whereas the Australian economy will slip in relative terms from its current 19th place to a much lower rank at 28th place.² In addition to Indonesia, there are a number of south east Asian economies that will have larger economies than Australia by 2050 including Thailand (25th), Malaysia (24th), Vietnam (20th), and the Philippines (19th). The PwC report should be seen as a wake-up call to Australians at all levels of the importance to increase our economic integration with Asia, enhance our business linkages, develop an export culture and broaden and deepen our exports.

4. Barriers and Impediments To Trade and Investment With Indonesia for Australian businesses, including examination of supply chain costs

Barriers and impediments to trade and investment are often raised by Australian companies as part of challenges in doing business in Indonesia. A number of these barriers and impediments are likely to be raised in other submissions to this enquiry relating to cattle, boxed meat, pork, sheep, lamb, vegetables, alcohol, building products to name but a few. Many of these issues were also raised by the IA-BPG in their submissions to the Australian and Indonesian Governments and the AIBC submission to this Inquiry.

The barriers that will be raised in this submission are:

- food and pharmaceutical labelling requirements;
- halal certification;
- the 'negative list'.

Labelling Requirements

The intent of the barriers and impediments in food and pharmaceuticals in Indonesia are not dissimilar to regulations in Australia to protect public safety and health (ie labelling in Bahasa Indonesia for food and pharmaceutical products).

What could be of great benefit to Australian exporters, however, are:

- standardisation of the labelling requirements;
- longer periods of notice of any changes to labelling requirements (ie 6-12 months); and
- a deliberate campaign by the Indonesian Government (BPOM) to socialise any changes to labelling requirements.

¹ IA-BPG Reports: Two Neighbours, Partners in Prosperity, August 2016, see <https://www.acci.asn.au/resources/indonesia-australia-business-partnership-group-position-paper> and Position Paper on Considerations Towards the Indonesia Australia Comprehensive Economic Partnership Agreement (October 2012) see: dfat.gov.au/trade/agreements/iacepa/Documents/ia-bpg-position-paper.pdf

² PwC Report, The World in 2050: How will the Global Economic Order Change, February 2017, <http://www.pwc.com/gx/en/issues/economy/the-world-in-2050.html>

The experience for many Australian exporters, has been they are confronted with changes to labelling requirements while goods are in transit and mandatory commencement before existing stock can be cleared from supermarket and pharmacy shelves. It is important to exporters that they have time to adjust and that existing goods on their way to Indonesia or already on the shelves can be cleared before the new regulations apply.

Halal Certification

Halal certification by Indonesian certifying bodies in Indonesia is another barrier. Halal certification in Australia by the relevant Muslim certification bodies should be recognised and accepted in Indonesia. Halal certification is not a matter that changes due to government regulation: it is a very clear, consistent standard worldwide. A number of Australian exporters with goods certified halal in Australia, have had to seek additional costly halal certification for their products due to the Assessment Institute for Foods, Drugs and Cosmetics, of the Indonesian Council of Ulama (otherwise known as LPPOM MUI) refuses to recognise halal certification from Australia.

In addition to documentation demonstrating compliance with halal certification, LPPOM MUI has often expected a 'study tour' to Australia to inspect the production facilities and relevant parts of the supply chain. Not only does this delay the sale of goods into Indonesia, but also adds significant time to arrange the study tour at a time that is convenient to the quite large delegations and costs which have to be borne by the exporter.

A solution is for the Indonesian Government to agree that halal certification in Australia by the relevant Muslim certification bodies is adequate to meet the labelling requirements in Indonesia, just as Indonesian halal certified goods are accepted in Australia.

Mutual recognition of halal certification between Australia and Indonesia would assist in expanding exports and driving down costs for exporters. Obviously, exporters would still need to meet the other labelling requirements (ie ingredients identified in Bahasa Indonesian).

Negative List

Indonesia, like many countries, maintains a 'negative list' which sets out industries that non Indonesian nationals are unable to acquire or imposes a maximum ceiling on foreign ownership. Many of the industries on the 'negative list' are included on commonly acceptable grounds: ie they help to protect Indonesian culture and/or have military implications.

One industry on the 'negative list' is education which prevents non-Indonesian nationals and businesses from owning more than 49 per cent of an Indonesian education institution. This limitation inhibits Australian education and training institutions and investors from establishing formal education and training institutions in Indonesia. Interestingly there are a number of Australian education and training providers that are majority owned by overseas companies and investors, including some Indonesians.

Australian education and training providers have specific regulatory obligations regarding their ongoing registration, quality assurance, standards and student protection. Australian education and training providers are not inclined to establish campuses in Indonesia if they can-not 'control' the day to day operations of the campus and be able to insist on compliance with regulations as required in Australia.

A number of Australian education providers have licenced their name and teaching of their qualifications to Indonesian business people, who control the Indonesian education provider. Often this has initially worked well and the Indonesian partner agrees to the Australian provider's insistence on maintaining quality. All too often, however, over time the personalities involved by the partners change or issues arise, which slowly poisons the relationship. The Indonesian side grudgingly agrees to follow the Australia standards which are now perceived to be 'dictated to them' and eventually seek out ways

to appear to comply with the Australian regulatory requirements when in fact the Australian standards are being breached. The reputation and regulatory risk for the Australian provider is significant.

The initial response by the Indonesian Government to concerns expressed by Australia education and training institutions is to permit the establishment of foreign owned and operated campuses in the exclusive economic zones (EEZs). This proposal is not practical as many EEZs are established in certain regions due to the need for the movement of goods or tax exemptions to stimulate economic growth in poorer areas. Most, if not all, EEZs are not located in areas which would support a campus to recruit students.

This issue could be addressed if, Australian education institutions that are approved by the Tertiary Education and Quality Standards Agency (TEQSA) and/or the Australian Skills Quality Authority (ASQA) and are also CRICOS registered (ie approved to recruit international students into Australia) are permitted to deliver Australian qualifications in Indonesia.

5. Emerging and Possible Future Trends

Increasingly, Indonesian consumers have middle class aspirations which has a direct affect on the volume and types of goods and services they purchase.

While the estimates of the size of the Indonesian middle class may vary, most commentators agree that the increasing wealth distribution will almost double the size of the Indonesian middle class in the period to 2030.³ Even the most conservative estimates by EuroMonitor puts the current size of the Indonesian middle class close to the size of Australia's population. At the other extreme, Boston Consulting Group put the current size of the middle class at 74 million which is expected to grow to 141 million by 2030.⁴ These Indonesian consumers are seeking higher quality products, with impeccable brand history, status and perceived to be clean and green. Foreign goods and services are increasingly popular in Indonesia and this is an opportunity for Australian exporters.

IA-CEPA

The proposed IA-CEPA will provide numerous opportunities to Australian businesses to export goods and services to Indonesia. It is imperative that the opportunities the IA-CEPA will provide to Australian businesses are marketed to business and to the community to ensure that there is no backlash as has occurred in the Australian and US media about the Trans Pacific Partnership, loss of markets and jobs.

In addition to the usual opportunities that free trade agreements normally provide to enable easier access for goods and services to other markets, the importance of the IA-CEPA is in investment and the opportunities that it provides to assist with the human resources development of Indonesia through skills development, particularly at the vocational level.

It is in Australia's interest to facilitate the skills development of Indonesians particularly in the vocational training area. Unfortunately, most Indonesian public and privately operated technical colleges suffer from poor resourcing, use curriculum that is little relevance to the workplace and the

³ Boston Consulting Group estimates that Indonesia is home to 74 million 'middle class and affluent' consumers, with that number set to rise to 141 million by 2030. McKinsey claims there are 45 million Indonesians who comprise a 'consuming class', which it estimates will increase to 135 million by 2020. The definition of what comprises the middle class or consuming class impacts on the size of cohort. McKinsey, for example, is counting households with earnings of just US\$7500 per year at purchasing power parity rates. Euromonitor in its assessment claims that Indonesia in 2014 had the world's fourth largest middle class with 17.3 million households (2014), behind the USA (25.3 million), India (74 million), and China (112 million). Euromonitor International forecasts that Indonesia's middle class will increase to 20 million by 2030 and disposable income will reach US\$11,300 (in constant 2014 prices) per household, up from US\$6,300 per household in 2014.

⁴ Indonesia's Rising Middle-Class and Affluent Consumers: Asia's Next Big Opportunity, Boston Consulting Group, https://www.bcgperspectives.com/content/articles/center_consumer_insight_consumer_products_indonesias_rising_middle_class_affluent_consumers/, 13 March 2013.

needs of employers, nor is it competency based, have poorly skilled trainers (both in their technical skills and skills as a trainer) and poor industry linkages for work placements. This results in poor quality training disconnected to employer and industry needs and limited opportunities for employment. As well, it contributes to the poor perception of the status of vocational training and consequently low income levels for graduates.

It would greatly assist the development of Indonesia, if Australia were to introduce a study/training and work visa for Indonesians to gain the relevant skills and work experience. The Indonesians would attend Australian technical colleges, and would work in relevant part time jobs during their formal study/training (somewhat similar to the apprenticeship concept). Upon completion of their studies they would continue to work in their field for a further 2-3 years to gain additional skills and experience.

These skilled Indonesians could also assist to address Australia's own skills shortages, particularly in the nursing and caring professions, tourism and hospitality and technical skill areas like automotive (ie panel beaters, spray painters and mechanics), metal working (ie aluminium welding). Not only does this assist the Australian economy, but the remittances sent back home would greatly assist Indonesian families and increase people to people links.

Increased People to People Links

The opportunities for increasing bilateral links with Indonesia are demonstrated by reference to the number of Indonesians who obtain skilled visas to work in Australia. Under Visa Subclass 457, only around 400-500 Indonesian citizens of our nearest neighbour with a population of around 250 million are approved to come to Australia to work each year.⁵ In comparison, annual approvals for other countries in the region are:

- India: 11,000-12,000 skilled workers;
- Philippines: around 2,300-2,400 skilled workers (population of 102 million);
- Malaysia: around 700-900 skilled workers (population of 30 million);
- Nepal: 700-800 skilled workers (population of 29 million);
- Singapore: around 400 skilled workers (population of 5.7 million);
- Vietnam: 400-500 skilled workers (population of 90 million);

As well, when considered in terms of the number of Indonesian students studying in Australia (over 8,800 student visas are granted each year, with a stock of around 17,000 Indonesians studying in Australia) at any one time, the number of Indonesian obtaining 457 visas is quite small. Another 760 Indonesians obtain the Visa Subclass 485 Temporary Graduate which permits this group to work in Australia for up to two years. Clearly there is scope for more Indonesians to gain work experience and professional development in Australia.

Goods and Services

The AIBC submission to this enquiry sets out a number of current and emerging opportunities for Australia goods and services to be exported to Australia. These opportunities are worthy of government support through Austrade and state trade offices.

From my experience there are particular opportunities for Australian goods and services exports to Indonesia in the following areas:

⁵ Philippine citizens obtaining Visa subclass 457 peaked at around 5,000 in FY 2011-12 and declined to average of around 2,300-2,400 from FY 2013-14. Indonesian citizens obtaining subclass 457 visas each year has been around 400-500 since FY2010-11. Similar data for Indian citizens has been 11,000-12,000 per year since FY 2011-12. Department of Immigration and Border Protection Statistics, Visa Subclass 457, see: <http://data.gov.au/dataset/visa-temporary-work-skilled/resource/229241aa-2c36-430d-b335-2af47b5fc1ea>

- processed food and agricultural products;
- building products;
- environment advisory services;
- transnational education (ie higher education and vocational education and training);
- products and technical services to support the mining industry; and
- health services.

In this submission the focus will be on transnational education.

Transnational Education

There are significant opportunities for Australian education and training providers to assist the development of the human resources in Indonesia, if the regulatory environment and the 'negative list' permitted them to do so.

The Australian Government has a target of 110 million international students studying Australian qualifications in their own country by 2025.⁶ This form of delivery is known as transnational education (TNE) and could be made available to overseas students through online delivery from Australia, offshore institutions teaching the Australian curriculum to their students or Australian institutions establishing offshore campuses. A variation to this is where the first one or two years of overseas study are deemed equivalent to the same period in Australian providers and students only have to complete one or two years further study in Australia or on campus in their own country, if offshore delivery was permitted (this is known as 1+2 or 2+1 programs)

Online delivery in Indonesia is problematic as Universitas Terbuka (UT) has been approved by the Indonesian Government as the sole provider of on-line education. Graduates with online qualifications that are gained through institutions other than UT, are prevented from employment in the civil service: this policy is also followed by most large and medium sized Indonesian companies not wishing to be 'out of step' with the Government.

Similarly, there are concerns by the Indonesian Government and public universities with overseas institutions opening campuses in Indonesia (hence the negative list). The main concerns by the Indonesian Government relate to:

- duty of care to their citizens about low quality qualifications;
- the inclusion of national core curriculum (ie religion, state ideology, cooperatives education); and
- to protect their own, and that of others, existing investment in education infrastructure.

'Diploma mills' operating from the US, Europe and Asia (including by some Indonesian entrepreneurs) often attempt to recruit Indonesian students. The business model of these providers are either on-line or delivered in hotels and generally are recognised by the lower quality higher education associations. These 'diploma mills' do not have campuses and do not provide adequate student support (ie tutors, access to on-line library materials) and it is understandable why the Indonesian Government seeks to stymie and close their operations in Indonesia (as does the Australia Government within Australia).

Unfortunately, due to the operations of these 'diploma mills', Australian and other high quality registered education providers are prevented from delivering on-line education to Indonesians.

An option could be for Australian institutions to partner with UT to deliver a range of qualifications. It is unlikely, however, that UT would offer more than one course in a particular field: UT would not offer courses that cannibalise existing courses of their own or that of another foreign provider with which they are in partnership. Indonesian students, therefore, would not have a choice of which Australian institution they wished to study with, as this would be determined by the field of study they chose.

⁶ Australian International Education 2025 Roadmap, p 3.

IA-CEPA provides an opportunity for Australian negotiators to address these two issues and assist the development of human resources in Indonesia. It is proposed that IA-CEPA includes a provision that Australian providers approved by TEQSA or ASQA and offer CRCOS courses to international students, are able to offer the same courses on-line or through in-country delivery. As well, it is proposed that the Australian qualification would also be recognised for civil service employment.

It is important to note that Australian higher education institutions generally offer on-line education as one of the study options along with full time and part time class contact. The learning materials, teaching and the assessments standards for the three options are the same, the only difference is the nature of the delivery. This is a distinction to the Indonesian experience of poor quality on-line programs being offered by 'diploma mills'.

Offshore teaching through a joint venture is the most practical option at the moment, but is bedevilled by long term challenges between the parties and due to the Australian institution not having control of the operation which could impact on the quality of teaching, assessment and issuing of qualifications. Whilst there are instances where this has worked in the higher education sector, the impediments slow and discourage Australian providers from delivering courses in Indonesia through partners.

In the VET sector, it is more difficult to comply with the ASQA requirements for accreditation, if an RTO seeks to deliver offshore. For example:

- availability of trainers (ie they must hold exactly the qualification they are teaching and the Certificate IV in Training and Assessment);
- how training is delivered;
- how workplace based training is delivered:
 - Indonesian companies are not used to the concept of apprenticeships where trainees go to their technical college for one or two days a week: companies traditionally have interns for five or six months immediately after they have completed their formal training, but before they graduate.

An example where this has worked is the establishment of the Australia Indonesia Professional Training Centre by an Indonesian food distributor and an Australian registered training organization (see Box 2).

Box 2: Australia Indonesian Professional Training Centre

PT Top Foods Indonesia, a prominent Indonesian food producer and operator of a fast food chain (has more outlets than McDonalds in Indonesia), formed a joint venture with Careers Australia Group (CAG) in April 2014 to establish a professional training centre focussed on the skill needs of the hospitality sector. The Indonesian hospitality industry is experiencing serious shortages of skilled staff, which will only grow as Indonesia significantly expands the number of hotel rooms.

The joint venture known as the Australia Indonesia Professional Training Centre (AIPRO) is located on the outskirts of Jakarta in the headquarters of PT Top Food Indonesia. AIPRO has an excellent training kitchen, meat boning room, vegetables room, chocolate and pastry making facilities as well as a 100 seat lecture theatre. CAG provided the curriculum and learning materials to AIPRO, undertakes the quality assurance aspects of the training and assessment and issues the Australian qualification.

AIPRO currently provides training in the Australian Certificate III in Commercial Cookery, using Indonesian graduates of Australian hospitality colleges as the trainers. The training follows the Australian curriculum and where necessary includes any additional material that is required to satisfy Indonesian accreditation: when the students have completed their modules they are tested in accordance with the assessments contained in the Australian training package and near the end of the formal training, the students also undertake two practical assessments conducted by Badan Nasional Sertifikasi Profesi (the Indonesian National Agency for Professional Certification). After undertaking their work placement and on-the-job training, the students receive the Australian Certificate III in Commercial Cookery.

There are plans to expand the courses on offer to also include the Diploma of Hospitality.

AIPRO was formally opened by the former Minister of Trade, the Hon Andrew Robb AO and the former CEO of Austrade, Bruce Gosper in November 2015.

6. Opportunities For Deepening Existing Commercial And Cultural Links and Developing New ones, with Indonesia

There are significant opportunities to deepen existing commercial and cultural links with Indonesia. There are also opportunities to develop new commercial and cultural links with Indonesia. This is particularly the case if Australia establishes public diplomacy and cultural infrastructure in major population centres outside of Jakarta.

The main challenge for Australia is to have an adequate number of trade and cultural staff on the ground in Indonesia to identify the opportunities and convert them to business and/or cultural opportunities to help raise the profile of Australia.

It is my view, based on many years of experience working in Indonesia, including at the Australia Embassy in Jakarta and in discussions with trade and cultural staff over the years since, that the prioritising of cultural projects and business opportunities, due to inadequate funding (in the case of cultural projects) and staffing (in the case of trade development), has significantly inhibited opportunities for Australia. Prioritising projects and business opportunities, whilst a good management technique has meant, due to very heavily constrained and limited resources, that worthwhile projects and business opportunities are not fully investigated, not prioritized, not nurtured and not developed.

A simplistic indicator of resourcing in Indonesia is provided by the cultural programs conducted by the Department of Foreign Affairs and Trade (DFAT) through the Australia Indonesia Institute (AII) and the Australia China Council (ACC). In 2015-16, DFAT funded only 34 projects via AII which looks after the cultural relationship with our nearest neighbour, compared with 36 projects funded through the ACC.⁷

Australian Government funding for cultural activities through AII is not adequate to assist the numerous high quality submissions. This forces the AII Board to pick 'winners' and not fund other worthwhile projects. All warrants a significant increase in its long term base funding for cultural and other activities to raise Australia's profile in Indonesia.

7. Role of Government in Identifying New Opportunities and Assisting Australian Companies to Access Existing and Potential Opportunities in Indonesia

The Australian Government and State Governments have important roles in identifying new opportunities through developing contacts, preparing market research and assisting Australian companies to access existing and potential business opportunities in Australia.

Austrade

Austrade plays a pivotal role in assisting Australian companies in doing business in Indonesia.

Australia's trade with Indonesia (as it is with many countries) is dominated by large contracts (ie mining or agricultural) usually held by large companies and Australian divisions of multi-nationals. This means that there is a relatively small and narrow base of active Australian exporters. Large Australian companies and multi-nationals operating from Australia have the resources to undertake research, market development and identify opportunities in markets. Large companies are able to achieve large export volumes on relating fewer sales, but this does not assist in diversifying the goods and services that are exported.

⁷ The Department of Foreign Affairs and Trade has not identified and published the amount of funding going to Indonesia and China for cultural diplomacy purposes, since 2008-9.

Unfortunately, however, except for the 'big end of town', export opportunities to Indonesia are the 'best kept secret' as Australian small and medium sized enterprises (SMEs) are broadly unaware of the opportunities in Indonesia due to their lack of access to information about the opportunities and because the media is focussed on trade with China (or where there is news about Indonesia, it is inevitably sensational negative news). It is essential that this information deficiency is addressed to ensure that SMEs have better access to information about export opportunities to Indonesia and how to export.

SMEs need considerable assistance to help them in their journey to export. By their very nature, SMEs tend to achieve smaller sales and accordingly more SMEs are required to achieve a similar level of exports as that achieved by the large companies. This has significant implications for government trade assistance agencies to assist Australian businesses.

Austrade in Indonesia requires additional resources to assist SMEs. The additional resources that are required include Jakarta based trade commissioners and highly experienced and well connected locally engaged staff.

State Trade Representatives

State trade offices also have a valuable role in assisting Australian companies. Currently, the Victorian, Queensland and Western Australia Governments maintain offshore representation to assist SMEs from their jurisdictions. The New South Wales and South Australian Governments also have identified staff in the Austrade office to assist companies in those states. Despite the perception of some commentators, provided the state trade offices and Austrade maintain close and regular dialogue and coordinate their activities, having national as well as state trade representation is good for Australian business.

8. Contribution of Diaspora Communities to Australia's Relationships With Indonesia

Indonesian Diaspora

The Indonesian diaspora in Australia numbers around 85,000 people. The Indonesian diaspora in Australia include:

- skilled Indonesians and their families who have settled in Australia as permanent residents;
- Indonesian spouses married to Australians;
- Indonesians studying in Australia as international students;
- Indonesians on the working holidays visa (up to 1,000 Indonesians between the age of 18-30 are eligible to come to Australia to undertake some study, holidays and work for one year);
- ethnic Indonesians who are now Australian citizens:
 - it is problematic whether they should be included in the diaspora since the Indonesian Government does not recognise dual citizenship: as soon as an Indonesian takes up Australian citizenship, they automatically lose their Indonesian citizenship.

The connections by the diaspora with family and friends in Indonesia plays a valuable role in enhancing the people to people linkages between Australia and Indonesia. Indonesians who ordinarily would not be exposed to Australia, its culture, arts, politics and business suddenly have a family member or friend who can explain Australia to them. This is not only helpful on a day to day basis but also when there are tensions in the bilateral relationship. The diaspora may not necessarily agree with the Australia Government's perspective, but because they live in Australia and interact with Australians, they have a better understanding why we think the way we do and why certain issues are important to Australians (ie the death penalty). This is often called second track diplomacy.

From a business perspective, however, the Indonesian diaspora in Australia are not active in pursuing trade and investment with Indonesia. The main opportunity where this could occur, however, is the Indonesian student population in Australia. The Indonesian graduates when they return home, do so with considerable experience of Australian life, possibly work experience and a network of friends from their studies which they may keep in contact with. After working for a number of years in Indonesia, some of these Australian graduates may well be occupying positions of influence in their organizations and can reach out to their friends from their studies who would generally be working in a similar field. These friendships if nurtured over many years can be extremely fruitful for Australian and Indonesian organizations since the main foundation of relationships, trust has already been established.

Similarly, the Indonesian graduate may be in a position of influence and when seeking to internationalise their operations, they often automatically consider Australia because it is the one country other than Indonesia with which they are familiar. This can have significant benefits from a trade, investment and bilateral perspective.

An excellent example of the benefits of studying in Australia can have in terms of understanding Australia and establishing business connections, is provided in Box 3. This Indonesian graduate played rugby at school and university in Australia and went into his family business when he returned home to Indonesia. He has expanded the company in Indonesia, including establishing a busy outlet in Melbourne, established what is now known as the Indonesian Rugby Union and established a joint venture with an Australian RTO to deliver training for the hospitality industry. See Box 3.

Box 3: Studying in Australia Can Mean Business for Australia.

Andrew Nugroho was born in Jakarta in 1975. He studied at All Saints College in Bathurst and then went on to study a Bachelor of Economics at the University of Sydney and a Masters of Management at Universitas Indonesia.

Andrew is CEO and Director of PT Top Food Indonesia (its main brand is Es Teler 77 which has over 200 outlets around Indonesia, Malaysia, Singapore and Australia), Director of PT Raja Top Food (RT Foodservice), Director of PT Gold Hotelier (The Sidji Hotel) and a Director of the AIPRO Training Center. Andrew is also the Secretary General of the Indonesian Franchise Association.

While at All Saints College, Andrew developed an interest and considerable skill in rugby and played in the 1st XV for his school, for the University of Sydney Colts and the 1st XVs for Wesley College. Andrew was the founder and then chairman of Indonesian Development Rugby for a number of years which has now evolved into the Indonesian Rugby Union. Andrew has a number of connections to Australia including a subsidiary in Melbourne, sourcing Australian food and ingredients, a joint venture to train Indonesians to Australian hospitality standards and relatives in Australia.

Andrew is an excellent example of how international education can benefit the Australian economy in the short, medium and long term.

It is important that the Australian Embassy has a good database which identifies the Indonesian alumni that have returned to Indonesia. Like the Indonesian diaspora in Australia, the Australian alumni in Indonesia can also play an important role in advancing Australian perspectives when there are tensions in the relationship.

Australia Diaspora

Australians in Indonesia are also important part of the diaspora that assist the bilateral relationship. The Australian diaspora in Indonesia can take many forms including small numbers of Australian students, a small number of young Australians on working holiday visas, a small number of retirees and a large number in business and their spouses and families.

There are a large number of Australians working in business; in many cases they have married Indonesians and seek to remain in Indonesia for the business opportunities. The Australians in business generally have a very good understanding of developments in Indonesian culture, politics and the economy. These Australians often are at the forefront of identifying trade barriers and impediments on a day-to-day basis as they experience the barriers and impediments in a practical sense. Governments

may have memorandums of understanding about what can and can be done, but the reality is that implementation often falls short and civil servants on the ground implement their interpretation of what are often conflicting regulations.

The Australian business community in Indonesia provide a useful source of market intelligence of business opportunities and also a feedback loop about public perceptions in Indonesia about Australia. It is important that Australian Embassy staff (particularly Austrade) and state government representatives go to business events involving Australian business people in Indonesia to ensure they keep abreast of developments. The in-country networks and the 'corporate knowledge' of these Australians are indispensable to the Embassy (and in particular Austrade) staff who are only posted in for around three years.

Whilst some of the business events may not yield as much information or market intelligence as anticipated, they are still important to attend as they create the opportunity to build relationships and networks with others for when they identify market opportunities or provide early warning on issues that could be vital to the bilateral relationship.

The Australian diaspora in Indonesia has also assisted young Indonesians to develop an interest in Australian Rules Football (through the Jakarta Bintang) which assists the bilateral relationship in a small way. As well, the Australia New Zealand Women's Group assists Australian spouses and families during their initial settling in period in Indonesia. ANZWG also raises funds for various Indonesian charities through their regular events and their annual Ball.

Overall, the Indonesian diaspora in Australia and the Australian diaspora in Indonesia have an important role in advancing bilateral relationships at a business and people to people level. The main challenge is ensuring that the Australian Government puts in place arrangements and initiatives to ensure that the maximum benefit is harvested from the diasporas.

9. Profit and Payment Repatriation Structures for Australian Businesses Operating in Indonesia

Generally, there are no issues with the repatriation of profit from Indonesia to Australia, unlike the situation with China.

Where problems do arise it is generally with the transparency and inconsistent nature of the Indonesian taxation system in determining the level of profit and the amount of taxation that is due to be paid. Accordingly, this impacts on the level of profit that can be repatriated.

Most companies with Australian investors attempt to ensure that they comply with the taxation and the anti-corruption legislation. The challenge is that often taxation assessments for PMA companies (ie those companies with predominantly foreign ownership) are scrutinised more closely than other companies as some taxation officials attempt to solicit petty (and not so petty) payments for favourable assessments.⁸ Where the corrupt payments are not forthcoming, the taxation official imposes the worst possible assessment as a reminder of their power and the benefit of complying with their initial assessment (and expectation for their corrupt payment).

Unfortunately, in the Indonesian taxation system, taxation officials often arbitrarily determine the level of taxation that should be paid by the company. In this scenario, if companies seek to challenge the level of taxation to be paid in the Indonesian courts system, they are required to pay around 50 per cent

⁸ <https://theconversation.com/to-get-more-people-to-pay-taxes-indonesia-should-stamp-out-corruption-by-officials-at-the-top-57512>

of the amount due, until such time the matter has been heard by the courts to determine whether the amount that has been levied is appropriate. Often this can take some years before the matter is finalised. This often means quite excessive taxation assessments, which can cause companies to close due to bankruptcy due to the alleged level of taxation due. This uncertainty is a major deterrent for Australian businesses.