

Economic aspects of the relationship

- 4.1 The health of Indonesia's economy is important to Australia both in terms of its bearing on the bilateral trade and investment relationship and also because of the link between economic prosperity and security and stability in the region. Indonesia is in the early stages of recovery after the Asian financial crisis of 1997-98. Its full recovery and future growth is intrinsically linked with its progress towards economic reform.
- 4.2 The first part of this chapter concerns Australia's efforts to assist Indonesia with the economic reform processes. The second part focuses on Australia's trade and investment relationship with Indonesia. As a context for these discussions, a brief outline of the state of Indonesia's economy is provided below. The account is a snapshot only and readers seeking a more detailed analysis are directed to the Bulletin of Indonesian Economic Studies, the submission from the Treasury and evidence to the Committee from DFAT and the ANU from which the account is drawn.

Indonesia's economy – a snapshot

- 4.3 According to Treasury, the 1997-98 Asian financial crisis impacted upon Indonesia more severely than any other regional economy.¹ While Indonesia's recovery from the crisis has been slow, there has been some improvement at the macroeconomic level. Largely driven by consumption, recent GDP growth, while relatively modest, has exceeded expectations. Various estimates have growth for 2003 as between 3.5 and 4.0 per cent. Growth for 2004 is forecast as between 4.0 percent and 4.8

1 Submission No 118, p 2

percent. The central government debt to GDP ratio has fallen from over 100 percent in early 2002 to less than 70 percent at the end of 2003. Interest rates and inflation have fallen and the rupiah has appreciated.

4.4 Treasury provided the following data on key macroeconomic indicators:

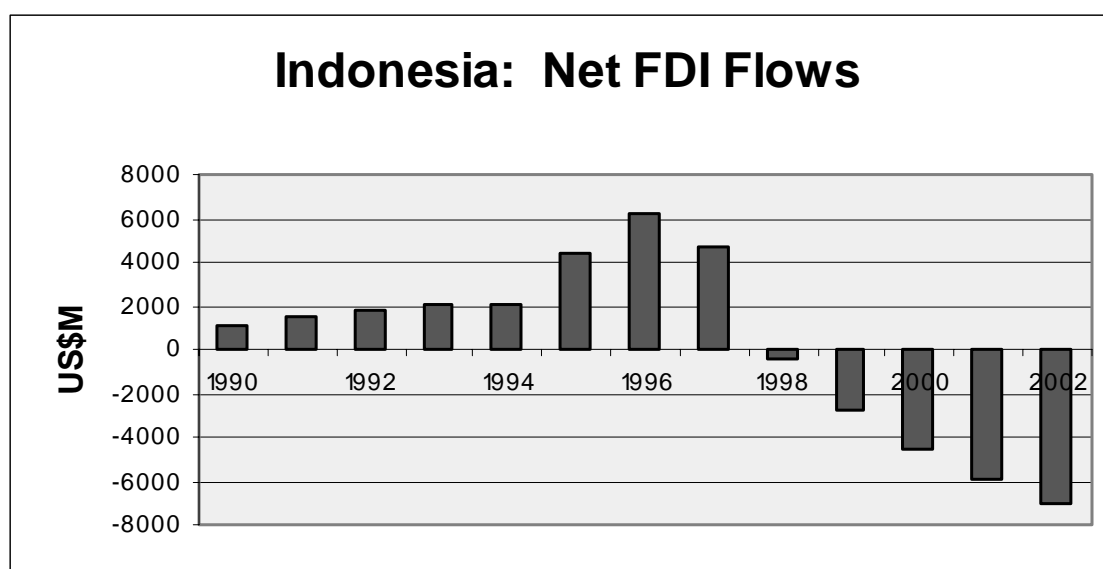
Table 4.1 Indonesia – Major Economic Indicators (percent)

	2000	2001	2002	2003	2004
GDP growth	4.9	3.3	3.7	3.9	4.5
CPI inflation (Dec to Dec)	9.3	12.5	10.0	5.1	6.5
Current account balance (%GDP)	5.3	4.9	4.5	3.5	..
Budget deficit (%GDP)	1.1	3.7	1.8	1.9	1.3
Central government debt (%GDP)	100	91	80	67	62
External debt (Med-long term; %GDP)	94	93	75	62	54
Exchange rate (Rp/US\$; year end)	9,595	10,400	8,950	8,453	..

Source Submission 118

4.5 Notwithstanding the improvements that have taken place in Indonesia's economy, many significant challenges remain including high unemployment and major infrastructure problems.

Figure 4.1 Indonesia - Net Foreign Direct Investment Flows (US Dollars Million)



Source Submission No. 109.

4.6 Foreign investment in Indonesia, considered critical to a full recovery, continues to fall. Foreign investment levels are unlikely to improve until the climate for investment improves. Factors identified as contributing to the poor investment climate include: legal and judicial uncertainty; poor corporate governance; reduced labour flexibility; security concerns; a

weak banking sector; poor state of and lack of public infrastructure; and confusion created by the implementation of regional autonomy.²

- 4.7 In its submission to the inquiry, EFIC, Australia's Export Finance and Insurance Corporation rated Indonesia 5 out of 6 for both short term and medium/long term risk. It described Indonesian exposure as dominating EFIC's risk portfolio (29% of the portfolio). EFIC pointed out that the term of the exposure was long and that 'even if all payments are honoured on schedule and no new exposure is created, the exposure will continue until 2021'.³

Graduation from the IMF program and progress towards economic reform

- 4.8 In response to the 1997-98 Asian financial crisis, Indonesia entered into a series of 'rescue' programs with the IMF.⁴ In these programs, the IMF set out the terms and schedule for economic reform in Indonesia. In July 2003, Indonesia announced its decision not to renew its current IMF program at the expiry of the Extended Fund Facility at the end of 2003.⁵ The decision is consistent with what has been described by academics, MacIntyre and Resosudarmo, as a 'quietly growing nationalist mood in politics and public discourse more generally – a sense of concern about Western dominance and an inchoate desire for Indonesians to take greater control of their own affairs.'⁶
- 4.9 In September 2003 the Government of Indonesia (GoI) released a White Paper outlining its economic policy package for 2003 and 2004. Broadly based on the formula used in the most recent Letter of Intent with the IMF, the package aims to maintain economic stability; restructure and reform the financial sector; and increase investment, exports and employment.⁷

2 A MacIntyre and B P Resosudarmo, 'Survey of Recent Developments', *Bulletin of Indonesian Economic Studies*, vol 39, no 2, 2003, p 144; and Transcript of evidence 13 October, Canberra, p 482

3 Submission No 1, p 2

4 Treasury describes Indonesia's arrangements with the IMF as follows: 'In response to the crisis, Indonesia entered into a three-year Stand-By Arrangement (SBA) with the IMF on 5 November 1997. This was replaced by an Extended Fund Facility (EFF) from 25 August 1998. After the expiry of this program, a new EFF was approved on 4 February 2000. This current EFF was originally a three-year program, but on 28 January 2002, it was extended by one year, to conclude at the end of 2003.' (Submission No 118, p 2)

5 Submission No 118, p 2

6 A MacIntyre and B P Resosudarmo, 'Survey of Recent Developments', *Bulletin of Indonesian Economic Studies*, vol 39, no 2, 2003, p 144

7 Republic of Indonesia, *Economic Policy Package Pre and Post-IMF Program*, 2003

The IMF will provide advice on the implementation of economic policy and will play a post program monitoring role. According to MacIntyre and Resosudarmo, under these arrangements Indonesia will continue to pay off its debt in accordance with the current schedule to be concluded in 2012.⁸

4.10 The package has been described by Andrew Steer, Country Director Indonesia, from the World Bank as ‘worth waiting for’, laying out ‘an impressive time-bound program of economic reforms that if implemented, would ensure continued macroeconomic stability, lower interest rates and risk premiums and higher investment and growth’.⁹ It has been well received by financial markets.

4.11 Early in 2004, Treasury provided the Committee with a relatively positive account of progress made since Indonesia’s announcement of its decision to graduate from the IMF program.

Since Indonesia’s announcement of its intention to graduate from its IMF program, signs regarding the prospects for continued reform and eventual recovery have generally been positive. The White Paper was well received by the financial markets and the IMF, and its implementation, at this early stage, appears to be progressing reasonably well. In recent months, the GoI has dealt quite successfully with a number of troublesome policy issues, including amendments to its Anti-Money Laundering Law and tighter supervision of bank-sponsored mutual funds, and progress has been made towards the establishment of the Anti-Corruption Commission (ACC). Bank sector restructuring and asset recoveries through the Indonesian Bank Restructuring Agency (IBRA) are on track and the 2003 target for privatisation proceeds is likely to be achieved or nearly so. All of these developments are pleasing considering that, during the term of the EEF [Extended Fund Facility], progress on the structural reform agenda was generally found to be more problematic than macroeconomic stabilisation.¹⁰

4.12 Australia, as noted by Treasury, ‘supports Indonesia’s intention to graduate from the IMF program while recognising Indonesia will continue to face significant economic challenges going forward.’¹¹

8 A MacIntyre and B P Resosudarmo, ‘Survey of Recent Developments’, *Bulletin of Indonesian Economic Studies*, vol 39, no 2, 2003, p 145

9 A Steer, ‘New Hope in Indonesia’s Economy’, Asia Pacific Strategy Council, 2003

10 Submission No 118, p 3

11 Submission No 118, p 2

Australia's engagement with Indonesia's economic recovery and reform process

- 4.13 Australia is committed to assisting Indonesia recover economically and to achieve economic reform. Australia has an active development cooperation program with Indonesia, the main aim of which is to assist Indonesia reduce poverty and achieve sustainable development.¹²
- 4.14 The development cooperation program, outlined in AusAID's *Indonesia Country Program Strategy From 2003* has four inter-related strategic objectives, one of which is to improve economic management.¹³ In the strategy, developed in consultation with Indonesia to run from 2003 to 2006, Australia has indicated that it will 'continue to prioritise support for critical areas of the government's economic and financial reform program but focus on a more limited range of interventions with the greatest potential impact, including:
- debt management;
 - revenue enhancement and taxation reform;
 - financial sector restructuring and supervision; and
 - regional economic management.¹⁴
- 4.15 The Committee supports this more targeted approach. Brief details from the strategy relating to these interventions are provided below.

Debt management

- 4.16 Australia provides assistance to the Centre for Government Bond Management to 'develop its capacity to issue government securities, to manage the risks around domestic public debt and to undertake total government debt monitoring and analysis'.¹⁵ With \$4,340,160 allocated over the life of the project, the Debt Management Project commenced in 2001 and is expected to be completed by the end of 2004.¹⁶

12 AusAID, 'Indonesia Country Program Strategy From 2003', AusAID, Canberra, 2003, p 3

13 AusAID, 'Indonesia Country Program Strategy From 2003', AusAID, Canberra, 2003 p 4

14 AusAID, 'Indonesia Country Program Strategy From 2003', AusAID, Canberra, 2003p 28

15 Submission No 116, Attachment A-2

16 AusAID, 'Indonesia Country Program Strategy From 2003', AusAID, Canberra, 2003p 53

Revenue Enhancement

4.17 According to AusAID, out of a workforce of 98 million, only 3 million Indonesians are registered taxpayers, and of these, only about 500,000 submit assessable reforms. Australia's efforts in revenue enhancement are focussed on assisting with tax reform although it will continue to 'examine options for assistance in other areas of revenue enhancement.'¹⁷ In 2002-03, Australia provided \$653,238 'to assist tax reform and revenue enhancement activities in Indonesia'. Activities included 'enhancing tax audit methodology, planning and improving taxpayer services.' According to AusAID, these activities represented 19 percent of expenditure under the Indonesia country program's flagship economic governance activity, the Technical Advisory Management Facility (TAMF) in 2002-03.¹⁸

Financial sector restructuring and supervision

4.18 As described in AusAID's *Indonesia Country Program Strategy*, 'Australia will continue to assist the Indonesian government undertake bank restructuring and reform through operational and financial restructuring of key banks and programs to support the privatisation program for state banks and so improve the standards and accountability of these institutions.'¹⁹ Australia will also continue to provide support in the area of improving 'the capacity and capability of the National Audit Office (BPK), the Large Taxpayers Office (LTO) and the banking industry to collect audits'.²⁰

4.19 The Committee has identified two areas in which Australia could enhance its contribution to assisting Indonesia's economic recovery; improved economic management at the district level and debt relief.

Economic management at the district level

4.20 One of the major undertakings that Indonesia has embarked on is decentralisation, the process of devolving powers to the regions. While there is general agreement that it is an exciting development that will be of substantial benefit in the long term, its implementation has been difficult.

17 AusAID, 'Indonesia Country Program Strategy From 2003', AusAID, Canberra, 2003, p 29

18 Submission No 116, p 6

19 AusAID, 'Indonesia Country Program Strategy From 2003', AusAID, Canberra, 2003, p 29

20 AusAID, 'Indonesia Country Program Strategy From 2003', AusAID, Canberra, 2003, p 29

- 4.21 Decentralisation, the Committee learned from submissions and from discussions with representatives of the International Financial Institutions (IFIs) it met with in Indonesia, has exacerbated the uncertainty that already exists in a system in which corruption is endemic. Such difficulties have implications for foreign investment. These are discussed in more detail later in this chapter in the context of the bilateral trade and investment relationship.
- 4.22 Representatives of the IFIs drew to the Committee's attention the role played by local governments' lack of expertise in hindering the implementation of decentralisation. The Committee considers there is scope for increased Australian effort in this area. AusAID's *Indonesia Country Program Strategy* identifies district economic management as likely to become an increasingly important area and suggests that Australia is likely to provide more assistance in this area as 'clear and beneficial areas of intervention present themselves.' Decentralisation activities are listed as having been allocated \$1,232,750 over a five year program.²¹ In additional information provided to the Committee, AusAID explained that 'the \$1,232,750 currently allocated for decentralisation includes economic management at the district level activities, but may include a wider range of activities, such as the Area Focussed Approach, which will assist Indonesia's decentralisation process by helping to improve local governance and service delivery in regional areas'. AusAID reiterated that 'Australian aid support for decentralisation in Indonesia, particularly through the Area Focussed Approach, is likely to expand significantly in coming years.'²²
- 4.23 The Committee is not persuaded that the amount of money being allocated to this area reflects its importance. As AusAID itself identifies in its *Indonesia Country Program Strategy*, there will be little progress on poverty reduction and improved access to services by the poor until areas build decentralisation capacity.

Local government representatives welcomed the emphasis that Australia will place on helping build decentralisation capacities but warned that the finances available to local government spending were totally inadequate for the task at hand. The implication was that unless these funding problems were resolved, there could be little progress at the local level on poverty reduction and improved access to services by the poor.²³

21 AusAID, 'Indonesia Country Program Strategy From 2003', AusAID, Canberra, 2003, p 53

22 Submission No 116, p 5

23 AusAID, 'Indonesia Country Program Strategy From 2003', AusAID, Canberra, 2003, p 26

- 4.24 Decentralisation is an area in which Australia is particularly well placed to assist. The Committee urges AusAID to be proactive in identifying areas in which it can assist the process of decentralisation particularly in terms of economic management.

Debt relief

- 4.25 In addition to the direct assistance that Australia provides to Indonesia through its development cooperation program, Australia has assisted Indonesia's progress towards economic recovery through other means including debt relief.
- 4.26 During the Asian financial crisis, Indonesia went from having virtually no domestic public debt to 22.9 percent of GDP in FY1996-97, 61.5 percent of GDP in FY1997-98 and 100.3 percent of GDP in FY2000. Since then it has declined to 66.9 percent of GDP at the end of 2003. While central government's debt interest payments have declined from 6.6 percent in 2001 to a projected 4.1 percent in 2003, they are, according to Treasury, 'still substantial considering that total central government revenue in 2003 was only 18.7 per cent of GDP.'²⁴
- 4.27 As a member of the Paris Club, Australia has provided debt rescheduling to the Indonesian Government.²⁵ The Export Finance and Insurance Corporation (EFIC) which negotiates and manages bilateral agreements in relation to foreign debts provided the following details of Indonesian debt to Australia rescheduled under Paris Club auspices.

Table 4.2 Debt rescheduled under Paris Club auspices

Rescheduling No.	Paris Club Agreement	Consolidation period	Amount rescheduled
First	23 Sept 1998	6 Aug 1998 to 31 Mar 2000	US \$12.5m Euro 28.9m
Second	13 Apr 2000	1 Apr 2000 to 31 Mar 2002	US \$27.3m Euro 38.6m
Third	12 Apr 2002	1 Apr 2002 to 31 Dec 2003	US \$82.8m Euro 41.9m

Source Submission No 1, p 5

24 Submission No 118, p 3

25 As a member of the Paris Club and as one of Indonesia's sovereign creditors, Australia has participated in the 1998, 2000 and 2002 rescheduling rounds, rescheduling a total of US\$390 million in bilateral debts. (Submission No 118, p 4)

- 4.28 However, as explained by DFAT, Indonesia's decision not to renew its IMF program precludes it from receiving assistance from Paris Club countries.²⁶
- 4.29 Treasury pointed out to the Committee that this decision 'comes at a time when Indonesia already faces significant challenges given its budget deficit position, substantial debt repayment obligations and lack of a track record in international bond markets.'²⁷ Notwithstanding this, Treasury suggested, Indonesia 'should be able to meet its post 2003 financing requirements, provided that it maintains market confidence and remains committed to its reform agenda'. It could achieve this, Treasury added, 'through a combination of continued fiscal consolidation, privatisation receipts, issuance of domestic and international bonds, the drawdown of certain foreign currency deposits held by the central government and other measures'.²⁸
- 4.30 In their discussion of options that Indonesia may consider regarding its engagement with the IMF, MacIntyre and Resosudarmo suggested that it could seek to finance itself 'through a combination of substantially stepped up tax collection and special bilateral approaches to key creditor countries and development banks for increased support.'²⁹
- 4.31 Treasury advised the Committee that 'during 2003 Indonesia approached a number of creditor governments including Australia seeking debt relief, principally in the form of debt swaps. Our understanding', it added, 'is that only Germany and France have agreed to debt swaps with Indonesia. Since the announcement of its decision to graduate from its IMF program, Indonesia has not approached the Australian Government seeking debt relief.'³⁰
- 4.32 Indonesia's sovereign debt to Australia as at 31 October 2003 was equivalent to AUD 1, 374.7 million.³¹
- 4.33 AusAID's *Indonesia Country Program Strategy* provides a sobering picture of the impact of Indonesia's high level of foreign debt. While Indonesia has reduced its debt levels from 100% of GDP in 2000 to 67% in 2003, this

26 Transcript of evidence, Monday 13 October, p 483 (DFAT)

27 Submission No 118, p 4

28 Submission No 118, p 4

29 A MacIntyre and B P Resosudarmo, 'Survey of Recent Developments', *Bulletin of Indonesian Economic Studies*, vol 39, no 2, 2003, p

30 Submission No 118, p 4

31 Submission No 122, p 10

has been at the expense of spending on basic services and development (the development budget has been cut for four years in a row).³²

4.34 As explained by Jubilee Australia, the ‘critical ratio in terms of working out whether you have a debt crisis is a debt service ratio, which is a ratio of how much a country is spending on servicing its foreign exchange compared to how much it is getting through the till in terms of exports. The standard figure that tells you whether you have a debt crisis is 20 percent.’³³ It described Indonesia’s current debt service ratio as about 26 percent.

4.35 Jubilee Australia argued that the situation was one to which Australia should pay heed:

That is relevant to Australia because history tells us that these sorts of debt levels imperil democracy; they are antithetical to stable government. The reason they are antithetical to stable government is that they mean that a government is spending too much of its resources on debt and not enough on its own people. Today Indonesia spends over five times as much every year on servicing debt as it does on its health budget and its education budget together ... this in a county where 55 percent of people exist on less than \$2 a day.³⁴

4.36 Suggesting that it was in Australia’s interest to work towards alleviating Indonesia’s debt burden, Jubilee Australia recommended that:

- 30 percent of Indonesia’s debt to the World Bank, IMF and Asian Development Bank be cancelled on the grounds that it is odious and illegitimate in nature;³⁵
- the Australian Federal Government should support the development of some form of international insolvency mechanism for countries;³⁶ and
- the Australian Government engage in a debt for poverty reduction swap mechanism with Indonesia.³⁷

4.37 In its submission to the Inquiry, Treasury made clear Australia’s position on debt relief – ‘we will not consider any form of debt relief or debt rescheduling for any country outside the auspices of the Paris Club or the

32 AusAID, ‘Indonesia Country Strategy From 2003’, AusAID, Canberra, 2003, p 8

33 Transcript of evidence, Wednesday 30 April 2003, p 140-141, (Jubilee Australia)

34 Transcript of evidence, Wednesday 30 April 2003, p 141, (Jubilee Australia)

35 Submission No 37, p 2

36 Submission No 37, p 3

37 Transcript of evidence, Wednesday 30 April 2003, p141, (Jubilee Australia)

Highly Indebted Poor Countries (HIPC) initiative'. Moreover, Treasury explained, 'under the *International Monetary Agreements Act 1947* the Australian Government is only authorised to provide financial assistance, such as debt relief, to another country where that country has an active IMF program.'³⁸

- 4.38 Indonesia does not qualify for HIPC assistance as its external debt ratio after traditional debt relief mechanisms is not above a threshold for the value of debt to exports³⁹. Under the new framework for determining a country's debt sustainability, sustainable debt-to-export levels are defined at a fixed ratio of 150 percent.
- 4.39 The Committee suggests that the changed circumstances brought about by Indonesia's decision to graduate from the IMF program and its consequential ineligibility to access Paris Club rescheduling, warrant a rethink of Australia's position on other forms of debt relief to Indonesia. The Committee is interested in the debt for poverty reduction mechanism outlined by Jubilee Australia which would involve Australia engaging in a 'transparent, tightly structured, accountable series of transactions in which Australia releases some portion of that debt and it is converted into local funds in Indonesia rupiah that are fed through to Indonesian NGOs and aid organisations working on the ground.'⁴⁰
- 4.40 Alternatively, the Committee suggests, the money could be specifically targeted to promoting education or to assisting regions develop the capacity and administrative skills to take on some of the new responsibilities associated with decentralisation or other key development areas.
- 4.41 The Committee considers that engaging in a debt for poverty reduction swap mechanism with Indonesia is entirely consistent with the poverty reduction focus of Australia's aid program. A debt swap poverty reduction program established with appropriate accountability measures in place has the advantage of ensuring that the benefits are channelled directly into poverty reduction programs.
- 4.42 The amount of debt relief provided could be the value of the debt relief that Australia was providing by means of assistance through Paris Club Rescheduling. Although bilateral debt relief from Australia may only contribute marginally to debt related problems that Indonesia faces, it

38 Submission No 118, p 4

39 Submission No 116, p 5

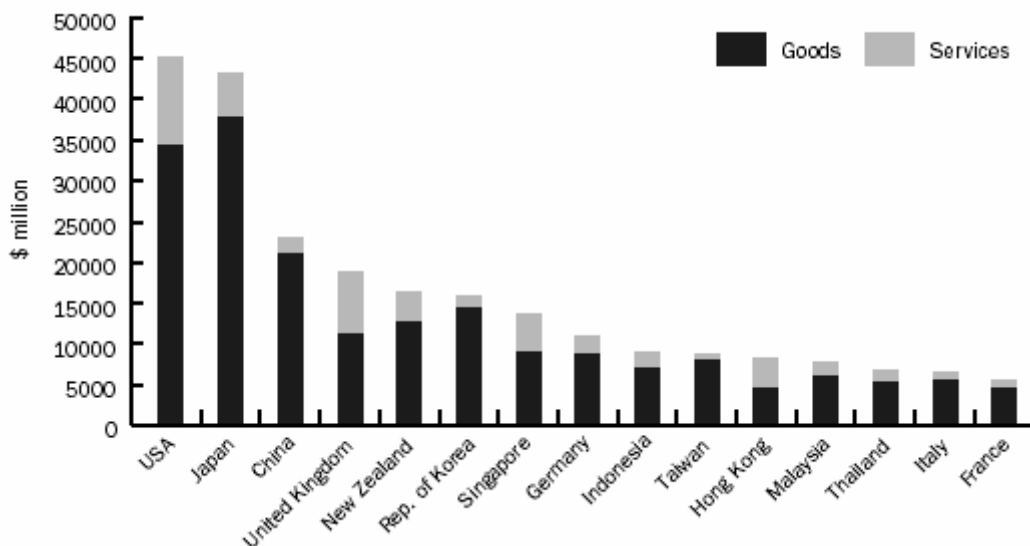
40 Transcript of evidence, Wednesday 30 April 2003, p 142 (Jubilee Australia)

would be an important symbolic gesture that may have considerable impact on the ground.

Trade and investment aspects of the economic relationship

- 4.43 Australia and Indonesia have a strong mutual interest in a healthy trade and investment relationship.
- 4.44 Indonesia is Australia's 10th largest export market and eighth largest source of imports.⁴¹ Australia is Indonesia's eighth largest exports market and sixth largest source of imports.⁴² As such Indonesia is already an important trading partner. It has the potential to be significantly more so given the size of its population, its proximity to Australia and the complementarity of the two economies. Likewise, the buying power of Australia represents a significant opportunity to Indonesia.
- 4.45 The table below illustrates the relative importance of Australia's trade relationship with Indonesia as compared with Australia's other trading partners.

Figure 4.2 Australia's two-way trade in 2002 - top 15 trading partners



Source DFAT Annual Report 2002-2003 (from DFAT Stars database and ABS International trade in services by partner country 2002) p .6.

41 DFAT, *The APEC Region Trade and Investment 2003*, Commonwealth of Australia, Canberra, 2003, p 6

42 DFAT FACT SHEET, October 2003

4.46 Australia's trade position with Indonesia since 1996-97 has declined from a \$1.4 billion dollar surplus to a deficit of \$1.7 billion in 2002-03. Since 1992-93, merchandise exports to Indonesia have increased by five percent per annum on average.⁴³ In 2002-03, they decreased by nine percent to \$2.9 billion. In the same period, merchandise imports from Indonesia have increased by 15 percent. In 2002-03, they reached \$4.6 billion.

Table 4.3 Australia's Merchandise Trade with Indonesia
(A\$ million) (f.o.b.)

Year	Exports from Australia	Imports into Australia	Net exports	Total trade
1992-93	1,715	1,305	410	3,020
1993-94	1,906	1,105	800	3,011
1994-95	2,113	1,198	915	3,311
1995-96	2,716	1,522	1,193	4,238
1996-97	3,305	1,864	1,441	5,169
1997-98	2,751	2,868	-118	5,619
1998-99	2,199	3,275	-1,076	5,474
1999-00	2,408	2,701	-292	5,109
2000-01	3,111	3,315	-204	6,426
2001-02	3,194	4,010	-817	7,204
2002-03	2,906	4,598	-1,692	7,504
Trend growth				
5 year	4.8%	9.5%	nm	7.4%
10 year	4.9%	15.9%	nm	10.0%

Source *The APEC Region Trade and Investment Report 2003, p.32 (Excerpt from Table 3: Australia's Merchandise Trade with APEC)*

4.47 The trend in the trade in services has been slightly more favourable with Australian exports in services growing from \$365,000 million in 1991-92 to \$962,000 million in 2001-02. Indonesian imports in services into Australia have grown at a similar rate from \$234 million in 1991-92 to \$638 million in 2001-02.⁴⁴

43 DFAT, *The APEC Region Trade and Investment 2003*, Commonwealth of Australia, Canberra, 2003, p 6

44 DFAT, *The APEC Region Trade and Investment 2003*, Commonwealth of Australia, Canberra, 2003, p 38

Table 4.4 Australia's Services Trade with Indonesia (A\$ million)

Year	Exports from Australia	Imports into Australia	Net exports	Total trade
1991-92	365	234	131	599
1992-93	495	345	150	840
1993-94	630	398	232	1,028
1994-95	840	485	355	1,325
1995-96	971	550	421	1,521
1996-97	1,029	707	322	1,736
1997-98	933	682	251	1,615
1998-99	835	583	252	1,418
1999-00	806	525	281	1,331
2000-01	883	576	307	1,459
2001-02	962	638	324	1,600
Trend growth to 2001-02				
5 year	-1.5%	-3.2%	2.1%	-2.2%
10 year	7.4%	8.0%	6.3%	7.6%

Source *The APEC Region Trade and Investment Report 2003, p.38 (Excerpt from Table 4: Australia's Services Trade with APEC)*

4.48 In 2002-03, principal items exported to Indonesia were cotton, live animals, aluminium and milk and cream. Principle items imported were crude petroleum, non-monetary gold, paper and paperboard, and furniture.⁴⁵

45 DFAT, *The APEC Region Trade and Investment 2003*, Commonwealth of Australia, Canberra, 2003, p 6

Table 4.5 Australia's Merchandise Trade with APEC by Principal Commodity – Indonesia (A\$ million)

Rank	SITC	Description	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	Trend growth 5 year
<i>Exports</i>									
1	263	Cotton	382.1	524.1	390.1	548.9	457.4	373.2	-0.5%
2	001	Live animals	75.9	39.5	108.2	146.1	208.7	283.8	40.4%
3	684	Aluminium	110.0	117.1	171.0	188.9	177.8	164.5	10.1%
4	022	Milk and cream	37.8	49.3	46.4	88.5	113.1	89.2	23.7%
5	699	Other manufactures of base metal	56.4	53.1	51.4	54.5	70.7	75.6	7.0%
6	333	Crude petroleum	213.6	89.8	18.2		78.1	71.1	nm
7	011	Bovine meat f.c.f	29.5	18.5	46.3	41.7	57.2	67.1	23.5%
8	686	Zinc	66.5	65.3	63.1	63.7	53.7	57.8	-3.6%
9	781	Passenger motor vehicles	6.3	7.3	65.4	64.5	74.4	47.3	62.7%
10	723	Civil engineering equipment	34.2	45.1	41.6	49.4	78.2	44.3	9.3%
Total Exports to Indonesia			2,750.8	2,199.2	2,408.4	3,110.9	3,193.7	2,906.0	4.8%
<i>Imports</i>									
1	333	Crude petroleum	1,042.2	1,245.4	907.1	1,222.9	1,707.8	1,658.1	10.7%
2	971	Non-monetary gold	338.7	419.4	261.9	332.2	476.1	983.8	18.5%
3	641	Paper & paperboard	73.1	118.5	105.9	90.5	97.8	172.9	10.7%
4	821	Furniture	71.8	81.4	81.5	79.4	85.6	100.7	5.3%
5	682	Copper	0.3	0.0	9.1	10.7	46.1	100.2	324.4%
6	763	Sound or video recorders	20.1	10.9	22.2	49.6	56.9	94.8	47.1%
7	635	Other wood manufactures	30.6	37.6	47.1	58.4	52.0	59.9	13.9%
8	248	Wood, simply worked	29.5	29.4	39.0	42.7	41.3	57.0	13.4%
9	752	Computers	14.8	27.5	36.3	59.1	44.5	52.5	26.6%
10	793	Ships, boats & floating structures	3.7	0.1	8.3	32.1	0.3	45.1	71.2%
Total Imports from Indonesia			2,868.3	3,274.7	2,700.7	3,315.1	4,010.2	4,597.7	9.5%

Source The APEC Region Trade and Investment Report 2003, p.101 (Excerpt from Table 13.5: Australia's Merchandise Trade with APEC by Principal Commodity – Indonesia)

4.49 Indonesia clearly has the potential to be a very significant export market for Australia and the Committee has some concern about the recent trend in the trade relationship. Data on regional trade indicates that the level of Indonesia's imports from the region declined across the board after the economic crisis of 1997-98. Significantly, however, the level of its imports from other comparable trading partners, namely Japan, Singapore, China and the Republic of Korea, began to substantially improve from 2000.

4.50 Submissions from the Western Australian and Northern Territory Governments also described the importance of the Indonesian market to their economies. WA described Indonesia as its third largest agricultural

export market based largely around wheat and livestock.⁴⁶ Indonesia is the Northern Territory's fifth largest export destination. It is also the destination to which the broadest range of NT products is exported.⁴⁷

Investment

4.51 Austrade advised the Committee that despite the difficulties in the investment environment, 'modest —and cautious —investment by Australian companies has continued'.⁴⁸ It provided the following snapshot of Australian investment in Indonesia.

The existing substantial investment relationship comprises more than 400 Australian firms maintaining a presence in Indonesia, which remains a major destination for Australian investment. According to the ABS, Australian investment in Indonesia is approximately \$3 billion. However, marketplace intelligence indicates that it is higher than that, and investment approvals amount to \$10 billion. It is concentrated in the resources and energy sectors.⁴⁹

4.52 Factors described earlier in this chapter as being responsible for the poor investment environment in Indonesia also impact on Australia's investment in Indonesia.

4.53 Mining, important as a sector to both Indonesia and Australia, is an area in which the investment decline is particularly evident. Austrade reported the pending closure of a number of mines owing to the expiry of contract or dwindling resources, the suspension of a large percentage of exploration projects and the withdrawal of a number of investors from the market. In addition to the legal and regulatory issues, the lack of a current national minerals policy and legislation, security concerns resulting from ethnic conflict and sectarian violence or from the call for separatism are having their mark on the attractiveness of the Indonesian mining sector.

4.54 Austrade advised that it does try 'to put the view of the mining community forward. However, ultimately, any sustained increase in Australian investment, in terms of mining or others sectors, 'will depend on Indonesia improving its investment climate'.⁵⁰

46 Submission No 33, pp 1-2

47 Submission No 87, p 2

48 Submission No 83, p 14

49 Submission No 83, p 14

50 Submission No 83, p 14

Contextual developments impacting on Australia and Indonesia's trade and investment relationship

4.55 In considering trends in the trade and investment relationship between Australia and Indonesia, the Committee gave some thought to some developments in the region and in Indonesia that are impacting on trade and investment; namely, trade liberalisation, decentralisation and security issues.

Trade liberalisation

4.56 Australia's economic relationship with Indonesia needs to be considered in the context of broader international and regional developments. These include:

- the collapse of the Doha round of negotiations of world trade talks at Cancun in September 2003;
- the ASEAN Summit in Bali in September 2003 attended by dialogue partners Japan, China South Korea and India, at which ASEAN agreed to create an ASEAN Economic Community by 2020; advanced moves towards a free trade zone with China (agreed the previous year); entered into trade deals with Japan and India involving the progressive reduction of trade tariffs and other barriers and which are expected to lead to free trade agreements within the decade; and
- the APEC meeting in October 2003 at which Members affirmed the primacy of the multilateral trading system , pressed for an ambitious and balanced outcome to the Doha Development Agenda (DDA) and committed to re-energise the negotiation process after the stalled Doha Round of negotiations at Cancun.⁵¹

4.57 Australia has in recent years pursued its commitment to trade liberalisation at the multilateral, regional and bilateral levels. Australia and Indonesia both have much to gain as trade becomes more open globally and regionally.

4.58 The Committee notes and endorses Australia's constructive role pursuing trade liberalisation in the region through its involvement in APEC. It welcomes the efforts of APEC at the Economic Leaders' Meeting in Bangkok in October 2003 to recharge the stalled Doha negotiations. APEC is the most powerful forum in the region to which Australia belongs and,

51 APEC, 'Bangkok Declaration on Partnership For the Future', APEC Economic Leaders' Meeting, Thailand, 21 October , 2003

as such, should remain a key focus of our efforts to expand open regional trade. The Committee encourages the government to maintain the vigour of its efforts to pursue trade liberalisation through APEC.

- 4.59 The Committee notes also developments at the ASEAN Summit in September 2003 in which ASEAN members and dialogue partners took significant steps towards closer economic integration as outlined earlier. The developments have met a mixed reaction in Australia with some commentators pointing out that much can happen between now and 2020 and others expressing great concern at the exclusion of Australia.
- 4.60 ASEAN's commitment to form an ASEAN Economic Community (AEC) and its actions towards greater economic cooperation with a view to eventual free trade agreements with China, Japan, and India is understandable particularly in light of the rapid growth in the economies of China and India. The Committee is conscious, however, of the potential significance of Australia's exclusion from these agreements.
- 4.61 The Committee considers that a patient approach is prudent given the changes in the ASEAN environment. It notes also that Australia has already concluded Free Trade Agreements with two of the ASEAN members and Closer Economic Framework Agreements with two of ASEAN's dialogue partners. Australia is already engaged and in a position to benefit from the opening up of trade in the region.
- 4.62 The Committee explored the impact on Australia of the ASEAN vision of an ASEAN economic community. DFAT explained that there was currently a five percentage point difference between the common external preferential that applied to AFTA and the Most Favoured Nation tariff that applies to Australia. It also pointed out that 'on a lot of the products that Australia sells, there are zero tariffs already, such as on livestock and meat, which is a fairly large proportion of our trade with Indonesia'.⁵²
- 4.63 DFAT argued that most of Indonesia's trade was with non ASEAN countries, namely Japan, the US, Korea and China and that only about 20 percent of their total exports go to other ASEAN countries. Explaining further that 'as in most other ASEAN countries, as their CEPT rates fall, the MFN rates also fall as they find out they are able to compete within their region and more widely' and added 'so the effect will not be as great as thought'.⁵³

52 Transcript of evidence, Monday 13 October 2003, p 489 (DFAT)

53 Transcript of evidence, Monday 13 October 2003, p 489 (DFAT)

- 4.64 DFAT argued that Australia will have an export market in Indonesia as long as we are competitive and that 'we are competitive in the areas in which we export, such as livestock and meat and a lot of agricultural products'.⁵⁴
- 4.65 The Committee accepts these arguments in terms of the current arrangements under AFTA and acknowledges that the arguments may also apply to the AEC. It makes the point that three of the four non-ASEAN countries that DFAT identified as receiving 50 percent of Indonesia's exports (Japan, the US, Korea and China) are dialogue partners with ASEAN. All of these countries progressed trade deals with ASEAN at the recent Summit which are expected to progress towards free trade agreements.
- 4.66 The Committee is interested in the potential impact of the decisions from the recent ASEAN summit on the AFTA-CER Closer Economic Partnership. In this context, the Committee welcomes the recent statement from the ASEAN Economic Ministers Retreat on 21 April 2004 in which the Ministers 'expressed the view that it would be beneficial to both regions to upgrade economic relations to the next level'. The Ministers supported the possibility of an ASEAN-CER Commemorative Summit in Vientiane in November 2004 and also indicated support for the possible launching of an ASEAN-CER Free Trade Area at the Commemorative Summit.⁵⁵
- 4.67 Australia's approaches at the multilateral and regional levels are widely supported. Australia and Indonesia's trade, and the trading relationship between them, will improve as progress is made through regional and multilateral approaches to a free and open trade around the globe. Australia should persist in its efforts to progress trade liberalisation through its multilateral and regional approaches.
- 4.68 In recent years Australia has also pursued bilateral free arrangements as a means of expanding its markets starting with a Closer Economic Relations Trade Agreement (CER⁵⁶) with New Zealand in 1983, a Free Trade Agreement with Singapore in 2003,⁵⁷ and a FTA with Thailand announced

54 Transcript of evidence, Monday 13 October 2003, p 489 (DFAT)

55 Media statement of the 10th ASEAN Economic Ministers Retreat, Sentosa, Singapore

56 The Australia-New Zealand Closer Economic Relations Trade agreement (ANZCERTA) is commonly known as CER.
www.dfat.gov.au/geo/australia/tradingnation/regional_trade_relationships.html

57 The Singapore-Australia Free Trade Agreement (SAFTA) became operational following an exchange of third person notes in Singapore on 28 July 2003.
www.dfat.gov.au/geo/australia/tradingnation/regional_trade_relationships.html

in October 2003 and expected to be signed in early 2004. In October 2003 it announced a Trade and Economic Framework Agreement with China and a feasibility study on the potential of a free trade agreement. Negotiations with the US regarding a FTA have recently been completed. The agreement is awaiting legislative implementation in both countries.

- 4.69 In response to the Committee's questions on action that Indonesia has taken in regard to pursuing free trade agreements of closer economic frameworks at the bilateral level, DFAT advised that Indonesia has announced discussions with Japan on an Economic Partnership Agreement and with the United States on a joint study on the benefits of a free trade agreement.⁵⁸
- 4.70 The Committee acknowledges that there is considerable debate about the impact of bilateral agreements on multilateral approaches to trade liberalisation with one side arguing that that bilateral agreements essentially 'undermine the WTO system by fragmenting the world trade system into a patchwork of discriminatory trading agreements'⁵⁹ and the other arguing that bilateral approaches can serve as a stimulus to the multilateral. The Prime Minister's announcement of the FTA between Australia and Thailand, at the time of the APEC meeting in Bangkok in October 2003, illustrates the Government view that multilateral and bilateral approaches can happily coexist, provided that they are consistent with WTO principles and objectives.
- 4.71 With these considerations in mind, the Committee canvassed the views of some witnesses on the potential value of a free trade agreement with Indonesia.
- 4.72 The Western Australian Government warmly welcomed the suggestion. Describing Indonesia as 'perhaps the closest market we have', representatives from the WA Government suggested that 'we would see a lot of benefits from such an arrangement' and that 'there will be much more benefits than risks'.⁶⁰
- 4.73 Professor Hill cautioned the Committee about the impact of the pursuit of FTA's on Indonesia:

At the moment, Indonesia is only a signatory to AFTA, which of course is regional rather than bilateral, and APEC, which is non-binding. However, a couple of months ago, the minister for trade

58 Submission No 122, p 4

59 Tim Harcourt, 'Cake cuts many ways', *Business Review Weekly*, 16-22 October 2003, p55

60 Transcript of evidence, Monday 18 August 2003, p 447 (Western Australian Government)

and industry announced the intention of the government to pursue FTAs with five countries, one of which is Australia. Two points are very clear about that. One is that Indonesia feels under pressure to do it because other countries are doing it in the region—Singapore, Australia, Thailand and others—so it feels as though it is missing the boat if it does not do it. Secondly, it is very clear that, although this minister is talking about FTAs, the reality is the other way. That is, it is going towards a protectionist sort of direction. So if the FTAs were to ever get off the ground, it would be in a highly regulated sense. It would be very dangerous for Indonesia because it would sidetrack the reformers, who are trying to push ahead with reform. They would have to then fight bushfires elsewhere. So it would be regrettable, but it looks like it is on the horizon.⁶¹

- 4.74 While the Committee considers that Australia should pursue with vigour its efforts to promote trade liberalisation through multilateral approaches, it considers that a bilateral approach with Indonesia is compatible with these approaches and should be given some consideration.
- 4.75 Such an agreement has the potential to offer similar benefits to the agreement reached with Thailand, a deal estimated as increasing Australia's GDP by A\$12 billion and Thailand's by A\$46 billion to Thailand over a twenty year period.⁶² The level of two way trade between Australia and Indonesia is comparable with the level of trade between Australia and Thailand.⁶³
- 4.76 Timing is important. A number of witnesses referred to the growing mood of nationalist sentiment in Indonesia which in some quarters is accompanied by a protectionist stance. Professor Hill described the trend

61 Transcript of evidence, Monday 13 October 2003, p 476 (Professor Hill),

62 Media release for DFAT, D%/7 May 2002

63 Figures provided by DFAT on Merchandise Trade between Australia and Thailand, and Australia and Indonesia. Submission No 122, p 5.

Australian Merchandise Trade with Indonesia					
	1998-99	1999-00	2000-01	2001-02	2002-03
Total exports	2,199,224	2,408,435	3,110,877	3,193,701	2,907,921
Total imports	3,274,725	2,700,703	3,315,090	4,010,214	4,600,378
Balance of merchandise trade	-1,075,501	-292,268	-204,213	-816,513	-1,692,457
Australian Merchandise Trade with Thailand					
Total exports	1,305,972	1,703,312	2,222,209	2,295,746	2,479,121
Total imports	1,902,078	2,422,326	2,779,896	2,885,569	3,469,469
Balance of merchandise trade	-596,106	-719,014	-557,686	-589,823	-990,348

toward protectionism as currently more of a sentiment and less a reality, affecting mainly a range of agricultural products. Although not yet serious, he cautioned, 'the way the sentiment is gathering and with the current ministry for trade and industry being implemented, it could become pretty serious in the next three to five years'.⁶⁴

- 4.77 The Committee understands that to date Australia and Indonesia have 'discussed their respective experiences in negotiating trade agreements in both the Australia-Indonesia Ministerial Forum and the annual Trade Ministers' meeting' and that the two countries 'have agreed to consider closer economic cooperation in sectors where trade can be facilitated.'⁶⁵ Negotiations for free trade agreements are resource intensive. Notwithstanding this, the Committee considers that a free trade agreement may offer symbolic value as well as economic benefit. The Committee considers that a scoping study should be undertaken to look at the implications of a free trade agreement between Australia and Indonesia.

Recommendation 9

The Committee recommends that the Minister for Trade proposes at the next Australian Indonesian Ministerial Forum meeting that a scoping study be undertaken on the implications of a free trade agreement on both economies.

Decentralisation

- 4.78 Although decentralisation has already received some attention in this chapter, it is discussed again below because of its impact on Australian companies doing business in Indonesia.
- 4.79 Decentralisation, the process of devolving power to the regions, is having an impact on the trade and investment relationship. A massive undertaking in its own right, it is a remarkably ambitious program to achieve simultaneously with the other economic and political reforms that Indonesia has embarked upon. Not surprisingly, its implementation has had its problems.
- 4.80 Decentralisation has made doing business in Indonesia more complicated, in some cases more costly, and, often, subject to considerable time delays. Austrade suggested that of the range of concerns that Australian

64 Transcript of evidence, 13 October 2003, p 476 (Professor Hill),

65 Submission No 122, p 3

businesses have about the investment environment, the ‘implementation of decentralisation reforms and the capacity of regional administrations to assume their additional responsibilities’ is of particular significance.⁶⁶ In evidence before the Committee, Austrade described some of the difficulties decentralisation creates for Australian companies:

There are several aspects that are having an impact on how people do business in Indonesia, and a major one is regional autonomy. A lot of the power is now being devolved almost to the city council level—the regencies (kabupaten) or the kota. That is causing some concerns with investors on the basis that whilst the two laws are in, at the centre, the enabling legislation—the rules and regulations—are not. We are finding that at the bupati level, the regency level—there are over 365 regencies—they are setting their own laws where it suits them. Companies are finding it very difficult, when transporting goods over several kabupaten or trying to set up in particular areas, to know what the rules and regulations are.⁶⁷

4.81 The ‘aura of uncertainty’ is described further by the ANU:

Local politics often leads to actions against foreign investors that are not supported at the centre—land claims, squatting on investment sites and local regulations which prohibit transactions by a large corporation. So there is a general aura of policy uncertainty, both centrally and regionally, and particularly regionally with decentralisation.⁶⁸

4.82 Decentralisation has reportedly also impacted on corruption. As quipped by Professor Andrew MacIntyre in his address at the 2003 Indonesia Update, there is ‘something worse than widespread organised corruption and that is widespread disorganised corruption’.⁶⁹

4.83 Not all the difficulties regarding decentralisation are caused by inconsistency and uncertainty and the spread of corruption. A number of regions are still in the early stages of developing the capacity and administrative skills to take on their new responsibilities. In its submission to the inquiry, the Australian Indonesia Business Council described Indonesian business people and government officials as being ‘united in

66 Submission No 83, p 14

67 Transcript of evidence, Wednesday 30 April 2003, p 177 (Austrade)

68 Transcript of evidence, Monday 13 October 2003, p 476

69 Tim Dodd, ‘Indonesian economy pays price of unrest’, *Australian Financial Review*, 29 September 2003, p 12

their appeal for the Australian government and business people to provide management and vocational training for Indonesians at the regional level, not just through Jakarta.⁷⁰

- 4.84 Inconsistencies in a decentralised environment may be a relatively permanent feature of the landscape with different regions imposing different regional levies and charges. It is likely that some regions will implement the policies and measures that will enable them to prosper. Regional differences may make for a more competitive business environment.
- 4.85 Many of these difficulties are expected to subside as regions develop the skills and policies needed to implement decentralisation successfully and central and regional governments, the will to tackle corruption more effectively. In the Committee's view, while a patient and persistent response from Australian business is called for, businesses should take heart by the consensus among analysts and policy makers that decentralisation will prove to be beneficial in the long term.
- 4.86 DAFT's analysis of the impact of decentralisation in its publication, 'Indonesia: Facing the Challenge', describes its potential long term benefit for foreign investors.

As autonomous regions develop, competition between regional governments for foreign investment should grow. Regions offering the most favourable taxation rates, infrastructure and regulatory environment will be best placed to attract new investment. Local responsibility for public works could make infrastructure provision more responsive. More governments may provide investors with more regulatory environment choice. Also, regional areas the central government neglected may achieve higher governance standards and public investment under regional administrations.⁷¹

- 4.87 Moreover, decentralisation clearly presents some opportunities for Australian business. Australian technical expertise is highly valued in Indonesia.
- 4.88 The Western Australian Government identified in its submission the huge opportunity presented by the implementation of regional autonomy for training members of the public service.⁷² In giving evidence to the

70 Submission No 111 p 6

71 EAAU DFAT, *Indonesia: Facing the Challenge*, Commonwealth of Australia, 2000, pp 29-30

72 Submission No 33, p 8

Committee in August 2003, it noted that 'to date, in excess of 150 officials have come down to Perth for training, and this is beginning to build up a good momentum'.⁷³

- 4.89 Earlier in the chapter, the Committee recommended that AusAID gives further attention to activities around developing capacity in economic management at the regional level. The Committee suggests that Austrade has a parallel focus and identifies specific opportunities presented by decentralisation for Australia particularly regarding the trade in services and the transfer of expertise.
- 4.90 The devolution of various powers and responsibilities to the regions could also facilitate the development of the relationship between different regions in Australia and different regions in Indonesia. Both the Northern Territory Government and the Western Australian Government described successful sister-state/province and sister-city relationships. The Committee understands other states also have initiated such relationships.
- 4.91 The Committee notes the Northern Territory Government's commitment to continue developing regional relationships in the eastern part of Indonesia at the provincial and regency level 'to assist in the identification of opportunities for trade and cultural cooperation and to facilitate processes to assist and promote the further development of this cooperation'.⁷⁴
- 4.92 The Committee considers that there may also be value in local governments establishing relationships at the district level. The role the Federal Government could play in encouraging such links has been discussed in Chapter 2.
- 4.93 As well as demanding changes in the way that Australians do business in Indonesia, decentralisation may require changes in ways that Austrade does business. With offices currently in place in Jakarta and Surabaya, as different regions develop infrastructure and attract investment, it may be appropriate to have a number of smaller, regional offices. In discussions about this, Austrade reassured the Committee that it continually reviewed and monitored the locations of its offices according to where the trade was moving in order to have its resources where they would be most effective.⁷⁵

73 Transcript of evidence, 18 August 2003, p 442 (Western Australian Government)

74 Submission No 87, p 5

75 Transcript of evidence, Wednesday 30 April 2003, p 178 (Austrade)

Impact of security concerns on the trade and investment relationship

- 4.94 Security concerns are having an impact on the trade and investment relationship. While no study appears to have been done on the impact of the Bali and Marriott bombings on trade and investment, Austrade advised the Committee that the value of Australia's exports has remained fairly static at around \$3 billion since 2000-01.
- 4.95 In its submission to the inquiry, Austrade indicated that the Bali bombings had influenced risk perceptions across the South East Asia region.
- 4.96 The heightened security concerns are reflected in the travel advisories which in turn impact to some extent on how business is conducted if not on the actual the level of business.
- 4.97 Although concerns about travel advisories were raised in a number of other contexts in this inquiry, they will be dealt with in this section.

Travel advisories

- 4.98 The Senate Foreign Affairs, Defence and Trade References Committee is currently undertaking an inquiry into *Security threats to Australians in South East Asia*, which is investigating the performance of DFAT and other relevant Commonwealth Government agencies, in the assessment and dissemination of threats to the security of Australians in South East Asia in the period 11 September 2001 to 12 October 2002.⁷⁶ This Committee does not intend to go over the same ground.
- 4.99 In May 2003 DFAT described to the Committee their travel advice regarding Indonesia as continuing to be "that Australians should defer non-essential travel to Indonesia, including Bali, and that threats against Australians and Australian interests in Indonesia remain high, given possible terrorist actions or civil disorder".⁷⁷ As at March 2004, the Advice still started with 'We continue to advise Australians to defer non-essential travel to Indonesia, including Bali'.⁷⁸
- 4.100 The evidence received by the Committee indicates that the impact of this level of travel advice varies among Australian travellers. Broadly, the

76 Senate Foreign Affairs, Defence and Trade Committee 2003, <http://wopared.aph.gov.au/Senate/committee/fadt_ctte/bali/index.htm>

77 Transcript of evidence, Thursday, 1 May 2003, p 186 (DFAT)

78 Department of Foreign Affairs and Trade 2004, <www.dfat.gov.au/zw-cgi/view/Advice/Indonesia>

evidence seems to show that individual travel decisions are less likely to be put off than those guided by an overarching process. Larger organisations are dissuading travel from a liability point of view (sometimes driven by insurance requirements), whereas this is less of an issue for individual travellers.

- 4.101 From a business perspective, the Australia-Indonesia Business Council (AIBC) claims that their ‘members who generally have several years experience in Indonesia, continue to travel and do business in Indonesia’.⁷⁹ In fact, a survey of AIBC members after the Bali and after the Marriott bombings showed that approximately 75% of respondents felt the bombings and travel advisories would have little impact on their business.
- 4.102 The impact on potential investors or business people (deferring travel or choosing to do business in other countries) is not easy to measure. However Austrade reports that they are “not seeing as many of the new exporters or new investors that [they] would expect to see in the current climate”.⁸⁰
- 4.103 Australian research bodies also report varying degrees of impact on their work related to the advisories. ACIAR stated ‘it has been a difficult period but not one that has challenged us to any really significant degree ... we have managed our way around the particular issues’.⁸¹ Whilst CSIRO claims that ‘interactions with Indonesia have been almost negligible due to the [travel advisory] ... we believe that CSIRO will weather this time due to ... continued interaction with Indonesian research agencies over the last three decades’.⁸² Under the CSIRO fellowship awards, some Indonesian science agency representatives continue to visit CSIRO.⁸³
- 4.104 The Department of Agriculture Western Australia stated that due to difficulties in clarifying the definition of ‘essential travel’, they decided that their scientists would not be sent to locations across Indonesia until there was a “substantial change in the travel advice”.⁸⁴

79 Submission No 111, p 3

80 Transcript of evidence, Wednesday 30 April 2003, p 174 (Austrade)

81 Transcript of evidence, Tuesday 5 August 2003, p 413 (ACIAR)

82 Transcript of evidence, Monday 17 March 2003, p 60 (CSIRO)

83 Transcript of evidence, Monday 17 March 2003, p 60 (CSIRO)

84 Transcript of evidence, Monday 18 August 2003, p 441 (Western Australian Government)

- 4.105 Universities appear hardest hit by the issue of travel warnings, with evidence from the Department of Industry and Resources WA, and the Australian National University linking this to insurance implications.⁸⁵
- 4.106 The Asia Education Foundation, who were contracted to carry out the management of DEST's pilot project for teacher exchanges, decided not to send teachers to take up positions in Indonesia in December 2002, "given the travel advisory on Indonesia", so postponed them for 12 months.⁸⁶
- 4.107 The Australian Consortium for 'In-Country' Indonesian Studies (ACICIS) have restarted management operations and invited Australian universities to send their students back into Indonesia.⁸⁷
- 4.108 In contrast, "independent schools and TAFE are not as affected ... because they are able to obtain insurance for their employees that visit the market".⁸⁸
- 4.109 The Department of Industry, Tourism and Resources believes that people may be paying more attention to travel advisories than they did prior to the Bali bombings. However, "anecdotally ... some of the diehards, some of the younger travellers, are returning. People who feel a sense of loyalty towards Indonesia, and Bali in particular, who have been there a number of times for holidays, are going".⁸⁹
- 4.110 The Committee is aware of the impact of the advisories on the establishment and continuity of some important programs. It is also very mindful of Indonesia's concerns about the advisories. Mr Imron Cotan, Ambassador to the Embassy of the Republic of Indonesia, in evidence to this inquiry, urged the Australian government to revoke its travel advisory on Indonesia "to enable the two peoples to freely travel and engage in activities beneficial to both countries".⁹⁰ Mr Cotan also requested that the travel advisories be reviewed from time to time.⁹¹ DFAT has assured the Committee that it has undertaken to keep the travel advice under review on a continual basis.⁹²

85 Transcript of evidence, Monday 18 August 2003, p 440 (Western Australian Government), Transcript of evidence, Thursday 1 May 2003, p 216 (ANU)

86 Transcript of evidence, Thursday 1 May 2003, p 233-34 (DEST)

87 Transcript of evidence, Thursday 1 May 2003, p 216 (ANU)

88 Transcript of evidence, Monday 18 August 2003, p 441 (Western Australian Government)

89 Transcript of evidence, Monday 16 June 2003, p 289-90 (DITR)

90 Transcript of evidence, Monday 16 June 2003, p 278 (Embassy of the Republic of Indonesia)

91 Transcript of evidence, Monday 16 June 2003, p 280 (Embassy of the Republic of Indonesia)

92 Transcript of evidence, Thursday 1 May 2003, p 186 (DFAT)

- 4.111 Travel advisories are a vexed issue and the Committee understands the various concerns expressed to it on this matter. It is also aware of the argument that travel advisories lose their impact after some time. When looking at the comparative travel advice given on any particular day on different countries, the variation is puzzling. For instance, on 31 March 2004, DFAT's travel advice for Indonesia remained "We continue to advise Australians to defer non-essential travel to Indonesia, including Bali". On the same day, a day in which media reported the arrest in the Philippines of four members of the Terror group Abu Sayyaf and the discovery of 36 kg of TNT⁹³, DFAT's travel advice opened with 'Australians in the Philippines should exercise extreme caution, particularly in commercial and public areas known to be frequented by foreigners'.⁹⁴ The media for 31 March 2004 also reported the arrest in London of eight terror suspects and the discovery of 500 kg of explosives.⁹⁵ DFAT's travel advice on that date started with 'Australians in the United Kingdom are advised to be alert to their own security.'⁹⁶ On the same day, the media reported a bomb attack on the Australian high commission in Kuala Lumpur. DFAT's travel advice for Malaysia opened with 'Australians in Malaysia should exercise a high degree of caution, particularly in commercial and public areas known to be frequented by foreigners'.⁹⁷ In a similar vein, several days after the Madrid bombings in which 190 people were killed,⁹⁸ DFAT's travel advice for Spain starts with 'Australians in Spain are advised to exercise caution and be aware of developments that might affect their safety.'⁹⁹
- 4.112 The Committee acknowledges that the travel advisories are not updated on a daily basis which may account for the range of assessments despite the various reported events and incidents. It notes, however, that the advice for the above places appeared to have little changed when checked again two weeks later. Notwithstanding this, the Committee acknowledges the complexity of the issue.

93 K Lyall, 'Loose lips sink Manila bomb plot', *Australian*, 33 March 2004, p 9

94 Department of Foreign Affairs and Trade 2004, <www.dfat.gov.au/zwcgi/view/Advice/Philippines>

95 Ben English, 'UK police foil bomb attack', *Daily Telegraph*, p 35

96 Department of Foreign Affairs and Trade 2004, <www.dfat.gov.au/zwcgi/view/Advice/United_Kingdom>

97 Department of Foreign Affairs and Trade 2004, <www.dfat.gov.au/zwcgi/view/Advice/Malaysia>

98 ABC News Online, 24 March 2004, <<http://www.abc.net.au/news/newsitems/s1072342.htm>>

99 Department of Foreign Affairs and Trade 2004, <www.dfat.gov.au/zwcgi/view/Advice/Spain>

- 4.113 The information above, however, does suggest some questions need to be asked about travel advisories generally. The Senate Foreign Affairs Committee's current inquiry is focussed on South East Asia and events and advisories between 11 September 2001 and 12 October 2002. The Committee suggests that a far broader inquiry into travel advisories be undertaken. The result of that inquiry may have implications for the wording of travel advice on Indonesia and other places.
- 4.114 Representatives of the Indonesia-Australia Business Council suggested to the Committee during discussions in Jakarta in February 2004 that the opening sentence at the beginning of the DFAT's advice was of concern and that the rest, as merely a statement of risk, was not a problem. The Committee can see value in this line of thought. As it is, advice to defer non-essential travel, raises a whole set of questions and uncertainty about the words 'non-essential'. It may be less confusing to start with a strong recommendation that would be travellers should consider the following information before undertaking travel to a particular destination, providing comprehensive details about what the risks are, etc, and then leaving it to individuals to make their own judgement. As it is, individuals are left with having to make a judgement about what constitutes 'non-essential' travel. We are in subjective territory.
- 4.115 Having made these points, the Committee considers that the Government must do whatever it can to safeguard the security of Australians while they are abroad. While individuals will ultimately make their own choices, the Government has a responsibility to provide them with the most accurate information that it has available to help them do this.
- 4.116 The current travel advice regarding Indonesia has implications for some of the suggestions made by the Committee in this report. A strong theme in the Committee's report is the need to strengthen the bilateral relationship through deepening understanding and nurturing people-to-people links. One of the most effective means of doing both is through visits, exchanges and travel between the countries.
- 4.117 On many occasions in the report, the Committee urges an expansion in the number and scale of visits and exchange programs. The Committee has made this push despite the travel advisories. The Committee's strong push for an expansion of the visits and exchange programs is on one level an expression of the Committee's optimism that the concerted and cooperative efforts of both countries will continue to create a more secure regional environment. Realistically, the Committee accepts that travel advisories will change from time to time and that this may impact on many of the excellent programs the Committee so strongly supports in

this report. The Committee encourages agencies and institutions affected to respond creatively during such periods and to find ways to ensure that the interactions take place.

4.118 The Committee notes that travel advisories incorporate actual practice and experience on the ground. It should also be noted that they are not a prohibition on travel and that large numbers of Australians still travel notwithstanding the travel advisories in place.

Recommendation 10

The Committee recommends that:

- **travel advisories should note that they are not a prohibition on travel unless otherwise the case;**
- **travel advisories should incorporate information on current practices, for example, the number of people travelling;**
- **where a travel advisory impacts upon a State Government relationship or business activity, that there be capacity for this to be discussed with DFAT in a way that ensures that if at all possible the advice can be given in a way that satisfies insurers of low risk activities; and**
- **that Australian Government agencies and institutions affected by travel advisories respond creatively during such periods and find ways to ensure that the interactions with their counterparts in Indonesia take place.**

Visas

Medical Treatment Visas

4.119 Australia offers a Medical Treatment Visa (MTV) option for people wishing to visit Australia to undergo medical treatment or consultations. Visas are available to cover short-term (up to three months) and longer term visits.

4.120 Medical treatment allowable under an MTV can include a range of activities within a health care facility (except procedures for surrogate

motherhood), and may also be used for people accompanying and providing support to someone who intends being a patient.¹⁰⁰

- 4.121 The Lions Eye Institute says that international citizens seeking specialised medical treatment represent a “lucrative – but as yet untapped – tourism niche market for Australia”, which could generate growth in the health services sector and stimulate further research capacity.¹⁰¹
- 4.122 Approximately 500 Indonesian nationals use MTV to visit Australia for medical treatment every year¹⁰², but this is well below the potential number. For example, according to the Lions Eye Institute, Australia attracts less than 1% of the total out-bound Indonesian eye health market, conservatively estimated at \$100 million in value.
- 4.123 All visa applicants intending to enter an Australian health care facility, for any reason, are required to undergo a chest x-ray examination to detect tuberculosis. As well as being essential for an MTV, an x-ray requirement may also apply to applicants from elsewhere in the world, for any other visa.¹⁰³
- 4.124 The submission from the State Development Portfolio of the Western Australian Department of the Premier and Cabinet, states that the Australian government requirement for all Indonesians seeking an MTV to undergo an approved x-ray to detect tuberculosis is “a major inhibiting factor in the development of inbound health programs”.¹⁰⁴
- 4.125 As they see it, the problem arises in the event that there is some indication of a potential presence of TB. The x-ray is then sent to Canberra for assessment by a panel of doctors, prior to a decision on the application. This process can take up to three weeks, and patients seeking urgent medical treatment often look to Singapore or other locations in order to receive timely treatment.¹⁰⁵
- 4.126 That submission recommends the introduction of a “telemedicine” system, to transfer x-ray images to Canberra electronically and with a streamlined

100 Department of Immigration and Multicultural and Indigenous Affairs 2004, <http://www.dimia.gov.au/allforms/visiting_medical.htm>

101 Exhibit No 18: Lions Eye Institute submission to the Commonwealth Tourism Green Paper 2003.

102 Submission No 76, p 20

103 Submission No 76, p 20

104 Submission No 33, p 20

105 Submission No 33, p 20

assessment process, provide a “same day” response. The facilities for this service are in existence in Jakarta.¹⁰⁶

Recommendation 11

The Committee recommends that the possible introduction of a telemedicine system be examined further, with the aim of improving the consideration time for Medical Treatment Visa applications

Visa changes for Australians visiting Indonesia

- 4.127 The Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) describes Australia as having a universal visa scheme which does not differentiate between Indonesia and anywhere else.¹⁰⁷ The situation in Indonesia until recently has been very different and was described by DIMIA as “a selective visa free regime”¹⁰⁸.
- 4.128 Australians were previously eligible for short term visits to Indonesia for tourism, business or socio-cultural purposes without a visa. This facility provided a free 60-day Short Stay Permit on arrival to travellers holding a return ticket and the equivalent of US\$1000 (to cover living expenses) prior to their arrival.¹⁰⁹ This type of visa could not be extended, transferred or converted to any other kind of visa; nor could it be used as a working permit. Eligible entry and departure was required to be through one of the airports, seaports, or landborders designated for international travel.
- 4.129 This visa free facility was first introduced in 1983, in Presidential Decree No. 15/1983 which granted free visas to nationals of 48 countries (including Australia) and was primarily designed to attract more foreign tourists to the country. The Indonesian government has since argued that the facility is often abused by foreigners who work in the country illegally or who are engaged in other activities¹¹⁰. The efforts required to monitor the activities of those entering Indonesia this way (entry and exit was permitted through any immigration checkpoint, and there were no online

106 Submission No 33, p 21

107 Transcript of evidence, Monday 23 June 2003 AM, p 326 (DIMIA)

108 Transcript of evidence, Monday 23 June 2003 AM, p 327 (DIMIA)

109 Embassy of the Republic of Indonesia 2003 <<http://www.kbri-canberra.org.au/consular/visa/visas.htm>>

110 ‘Govt revokes visa-free facility for 48 countries’ *The Jakarta Post*, 9 April 2003

networks to support the process) were overwhelming and beyond the capacity of the immigration authorities.¹¹¹

- 4.130 As reported in the submission from the Department of Immigration and Multicultural and Indigenous Affairs, Indonesia planned to amend its visa regime, “specifically to abolish its visa-on-entry policy given to citizens of 48 countries”.¹¹² The Department of Foreign Affairs and Trade described it as visa-free entry to Indonesia being revoked for “nationals of most non-ASEAN countries”.¹¹³
- 4.131 Proposals to revise visa-free-entries were initiated in December 1999 by the then president Abdurrahman Wahid, and followed up by the Directorate General of Immigration¹¹⁴. The tourism industry in particular was critical of the revisions.
- 4.132 The proposal was again raised in late 2000 when the Indonesian government was reported to be considering charging fees for the issuing of visas upon arrival for tourists from countries which had previously enjoyed the visa-free facility granted by Indonesia¹¹⁵. At this time the reasoning given for the proposed changes was that Indonesians had been receiving unfair treatment as they had to pay for their visas, while the citizens of the 47 countries could enter Indonesia for free. For example visa applications to the Australian Embassy require Indonesians to pay a non-refundable fee and then wait a week to find out if their application has been accepted.
- 4.133 The use of income gained from the visa fees to improve immigration processes has also been raised as a reason for implementation.
- 4.134 The changes were raised again in September 2002 when the Jakarta Post reported that the Directorate General of Immigration in Indonesia was considering abolishing the 2 month free visa for 48 countries, including fellow ASEAN nationals, East Asian and Western nationals.¹¹⁶
- 4.135 Protests against the visa fee changes have continued whenever the issue reappears, particularly from the local tourism industry. In 2003 the Jakarta

111 Directorate General of Immigration, Jakarta, ‘Why we need changes in RI’s visa policy’ 19 May 2003, <<http://www.kbri-berlin.org/news/release/News190503.htm>>

112 Submission No 76, p 23

113 Submission No 98, p 3

114 Directorate General of Immigration, Jakarta, ‘Why we need changes in RI’s visa policy’ 19 May 2003, <<http://www.kbri-berlin.org/news/release/News190503.htm>>

115 ‘Indonesia ponders fees for visas on arrival’ *The Jakarta Post*, 3 November 2000

116 ‘Indonesia muses abolishing free visas’ *Asian Travel News*, 3 November 2002, <<http://www.apmforum.com/hariini/archives/000209.php>>

Post reported a street rally protesting against the policy in Bali, which attracted thousands of local tourism players. They claimed the policy would badly hurt domestic tourism industries which had yet to recover from the Bali and the JW Marriott Hotel bombing in Jakarta¹¹⁷, and were also dealing with other impacts on tourism such as terrorism fears, SARS and the Iraq war.¹¹⁸

- 4.136 On 31 March 2003 President Megawati Soekarnoputri signed the decree, to permit short visa-free visits for the nationals of 11 countries only¹¹⁹. The countries included were Thailand, Malaysia, Singapore, Brunei Darussalam, the Philippines, Hong Kong S.A.R., Macao S.A.R., Chile, Morocco, Turkey and Peru.¹²⁰ Vietnam has since replaced Turkey for reasons of reciprocity.
- 4.137 The Presidential Decree outlining the proposal states that “A Free Visa for Short Visit ... is granted only for visits, which are based on mutually beneficial and reciprocity and will not cause any disturbance to the law, order or national security” and “may also apply to ... certain countries, which have a bilateral or multilateral cooperation with the Indonesian government”.¹²¹ Australia is not included in either of these two classifications.
- 4.138 Since changes to the 1983 visa system were first raised, the timing for implementation, costs involved and even which countries would be affected, was unclear, and subject to change. Despite a number of dates having been proposed for implementation of the new visa regime, it did not commence until 1 February 2004.
- 4.139 As the Age reported:

Indonesia has set a tariff of 210.000 rupiah (\$A33) on one-month visas-on-arrival for most tourists from February 1. The tariff for a 10-day tourist visas will be 84,000 rupiah (\$A13).¹²²

117 ‘Government to revamp visa policy again’ *The Jakarta Post*, 10 September 2003

<http://www.bkpm.go.id/en/board.php?mode=baca&message_id=123>

118 ‘Jakarta’s visa fee blow to tourism’ *Australian Financial Review* 5 January 2004, International News p. 10

119 Presidential Decree No. 18 Year 2003, on ‘Free Visa for Short Visit’ Unofficial Translation <<http://www.indony.org/pressreleases/Keppres%20no.%2018%20thn%202003.pdf>>

120 ‘Govt revokes visa-free facility for 48 countries’ *The Jakarta Post*, 9 April 2003

121 Presidential Decree No. 18 Year 2003, on ‘Free Visa for Short Visit’ Unofficial Translation <<http://www.indony.org/pressreleases/Keppres%20no.%2018%20thn%202003.pdf>>

122 ‘Indonesia introduces tourist visa tariffs’ *The Age*, 21 January 2004, General News p. 6

4.140 The current *Travel Advice for Indonesia* on the Department of Foreign Affairs and Trade “smartraveller” website¹²³ (as issued on Friday, 06 February 2004, 20:05:38, EDT) says the following about the new visa regime:

Two visa types are available to passengers arriving at a point of entry where the visa on arrival facility is offered. These are a three day short-stay visa for USD10.00 and a 30 day visa for USD25.00. Payment must be made in US dollars on arrival. It is recommended that travellers have the exact US dollars cash available as not all entry points will have full bank facilities in place until sometime later in the year.

The current cost of a tourist/business visa provided by the Indonesian missions in Australia before departure remains at A\$125 (for a sixty day stay).¹²⁴

4.141 The DFAT “smartraveller” website lists the key features of the new visas on arrival system regime as follows.¹²⁵ Visas on arrival:

- can only be obtained at certain international airports
- can only be obtained at certain seaports (Australians arriving at any other border entry point will require a visa from an Indonesian diplomatic post)
- can only be extended in circumstances such as natural disasters, accident or illness

4.142 The Indonesian Embassy justified the new visa rules when it appeared before the Committee in June 2003:

We would like to review the abuse of visa, not only for those wanting to work in Indonesia, but also for those overstayers. ... In Jakarta itself there are a number of Australians ... who work—abusing their visa—as English teachers, as consultants.

As far as the fees are concerned, we would like also to collect some income from that ... Some of that income will be used to develop what we call an online immigration system, through which you will be able to easily apply for a visa. ... In a sense, the fees or the

123 Department of Foreign Affairs and Trade 2004, <<http://www.dfat.gov.au/zw-cgi/view/Advice/Indonesia>>

124 Department of Foreign Affairs and Trade 2004, <<http://www.dfat.gov.au/zw-cgi/view/Advice/Indonesia>>

125 Department of Foreign Affairs and Trade 2004, <<http://www.dfat.gov.au/zw-cgi/view/Advice/Indonesia>>

income derived from this fees will be used to build a very solid system—that you have applied in your country—as to facilitate visa applications, reduce the timing and also to expedite the process.¹²⁶

- 4.143 The Australia Indonesia Business Council does not agree that the changes will have the desired effect:

This reverses the decision made in the mid 1980's to have visa free entry, which at the time was seen as a major step forward in encouraging tourism to Indonesia. We believe the selective reimposition of visa fees is a regressive step, and discriminates against Australians. It cannot be justified on security grounds, as it doesn't apply to everyone. We have voiced our concerns to Indonesian officials on several occasions.¹²⁷

- 4.144 However the Department of Industry, Tourism and Resources suggests that the financial impact will not be as bad as advocated elsewhere:

In a fairly competitive market, the extra cost of \$US40-odd for a visa may have an impact if the elasticity of demand is such that people weigh that up. For a family of four, \$US160 may have an impact when compared to other perhaps cheaper destinations. For a young, independent person travelling, it may not have such a significant impact.¹²⁸

- 4.145 The impacts of such changes would not only be financial in nature, as is described by *Asian Travel News*:

The main benefit of visa-free policies to foreign nationals is not so much in reduced travel expenses, but more to do with convenience. But the even more critical benefit is to foreign relations where extension of such privileges to a country's nationals is a discreet message to the country that their nationals are trusted.¹²⁹

- 4.146 The Committee agrees that although the introduction of visas on arrival for Australians visiting Indonesia may have some negative impact on the tourism industry, and less tangibly the relationship between our two nations, the decision rests with the Indonesian Government. Australia

126 Transcript of evidence, Monday 16 June 2003, p 280 (Embassy of the Republic of Indonesia)

127 Submission No 111, p 7

128 Transcript of evidence, Monday, 16 June 2003 p. 289 (DITR)

129 'Indonesia muses abolishing free visas' *Asian Travel News*, 3 September 2002
<<http://www.apmforum.com/hariini/archives/000209.php>>

cannot really protest the introduction of visa fees by Indonesia when we impose such fees on their nationals visiting this country.

- 4.147 The Committee supports the Indonesian Government using the funds gained from the visa fees to improve immigration facilities in the region, particularly through the use of online networks for visa application and at immigration checkpoints.

Austrade's response to the changes in the trade and investment climate

- 4.148 The decline in the trade and investment environment has had a direct impact on the scale and nature of Austrade's work. Its approach now concentrates on facilitating business missions into the region, participating in State-based events in Australia and in organising inbound buyer missions from Indonesia to Australia.¹³⁰

- 4.149 Austrade described the changes in its role as follows:

Our role has come to cover three things. First, we keep the business channels open when people are not coming. For years they said that Austrade was the eyes and ears of Australian business in Asia. We are more than that now; we are the face of Australian business, because we are the ones who are going out to get the customers. Secondly, we have had to get closer to the sale. This is one of the things that Mike mentioned. We are almost more like sales brokers. If people are not coming up and doing the face-to-face stuff, we have to get a lot closer to the customer. We have to use innovative and different ways to ensure that we keep people face to face, whether it is via technology or by taking them out to Australia.

The third thing that we have been doing in the short term, if people are reluctant to come for one reason or other, is act as somewhat of a surrogate representative—within, obviously, legal bounds—to make sure that the business channels and the business is not lost to Australia. That is the sort of thing we have had to do. That has turned our business upside down, in the light of declining numbers coming in and declining business for us.¹³¹

130 Submission No.83, p 8

131 Transcript of evidence, Wednesday 30 April 2003, p 180 (Austrade)

- 4.150 The change in the scale of operations is reflected in a significant shift in resources to Austrade over the last decade from \$2,521,000 in the 1993-94 budget to \$1,878,672 in the 2002-03 budget.¹³²
- 4.151 The Committee commends Austrade for its approach in adapting to the changes in the trade and investment environment.
- 4.152 In any environment, there are issues and opportunities. The submissions from the many departments involved in some way with trade and investment have provided comprehensive details about both. Consistent with its broad brush approach to looking at the bilateral relationship, the Committee has not given an account here of the detail of issues and opportunities affecting the various sectors. The issues are being dealt with by the Working Groups of the AIMF. The Committee has focussed on opportunities.

Areas of opportunity

- 4.153 While the outlook for the investment climate is poor, Australian companies can still do well in Indonesia. Trade, Austrade pointed out, has proved remarkably resilient since 1997 indicating that the commercial aspects of the relationship are very sound.¹³³ This was reinforced by representatives of the Indonesia-Australia Business Council in discussions with the Committee during its visit to Indonesia. They described trade as being the most stable aspect of the relationship. In their view, despite fluctuations in the broader bilateral relationship, from the commercial side it was largely 'business as usual'.
- 4.154 Opportunities exist for both countries to substantially expand trade in the long term. As pointed out by Austrade, 'despite the difficulties and challenges in the market one needs to recognise that in the population of about 210 million, even though 58% of them live on less than US\$2 per day, 30 million – one and a half times the population of Australia – are middle class, with commensurate spending power'.¹³⁴ In a similar vein, but from an Indonesian perspective, Mr Noke Kiroyan, Board Member of the Indonesia-Australia Business Council and Chairman of Rio Tinto in Indonesia, suggested in a paper, copies of which were given to members of the Committee during their recent visit to Jakarta, that Australians' buying power compensated for the lack in numbers.

132 Submission No 119, p 3

133 Submission No 83, p 15

134 Submission No 83, p 13

It is worth bearing in mind that Australia is around the 14th largest economy in the world, and as such it is no small country by any measure. While our economy kept shrinking Australia is showing further healthy growth, and any economy that is growing would need additional outside input to satisfy the needs of its population. Their numbers are not that big, but their buying power amply compensates for the lack in numbers.¹³⁵

- 4.155 At the present time, according to Austrade, 'Indonesia offers best prospects for experienced firms with the resources to commit for the long term. However, there are opportunities for less experienced SMEs particularly where they are able to meet a niche demand'.¹³⁶
- 4.156 The current climate, however, does demand that different business models be adopted and that a longer term view be taken.
- 4.157 In the Committee's view, some of the factors contributing to the difficulties in the investment environment, including decentralisation and the need for infrastructure, present in themselves opportunities for Australian companies to provide expertise and services. As indicated at various points in this report, the potential has already been clearly recognised by some parts of the government sector, particularly by WA and the NT.
- 4.158 At this point the Committee notes some concerns expressed by a member of the Indonesian-Australian Business Council during discussions in Jakarta in February 2004. The member noted that much of Japan's aid money to Indonesia was targeted for infrastructure projects particularly in the power area. The members suggested that some Australian power companies were concerned that this would result in Japanese companies winning the contracts. In this respect, the Committee notes that the media reported on March 31 2004 that of the 104.6 billion yen that the Japanese would provide to Indonesia in long-term, low interest loans, 58.7 billion yen was to cover the construction of a thermal power plant near Jakarta.¹³⁷ The Indonesia-Australia business Council suggested that aid money could be used as a positive tool to enhance and support business.

135 N Kiroyan, 'Indonesia-Australia Relations: Business as Usual', paper presented at the Annual Conference ASC – University of Indonesia, Jakarta, 28 January 2000

136 Submission No 83, p 8

137 'Japan to extend loans to India, Indonesia, Vietnam, Tokyo Kyodo World Service in English 0914 GMT 31 March 2004

Specific opportunities

- 4.159 Austrade's submission provides details about a number of sectors in which opportunities are available for Australian products and services including; information, communication & technology (ICT) services; automotive; environment; health; infrastructure; agribusiness; resources and services.
- 4.160 The Committee has focussed on areas identified by Austrade as sectors performing well; agribusiness, education and automotive. It has focussed in particular on education because an increase in the export of education services has multiple benefits to the bilateral relationship.

Agribusiness

- 4.161 Agribusiness (including food and beverages) is an area of considerable potential for Australian producers and companies. According to Austrade Australian exports in the food sector to Indonesia have grown from being Australia's ninth most important market in Asia in 1991-92 with a market share of 3.1 percent to being its second most important market in Asia in 2002-03 with a market share of 8.7 percent.¹³⁸
- 4.162 Opportunities are present in the Indonesian market for Australian suppliers of horticultural products including fresh vegetables for the retail, hotel and restaurant sector; seedlings for Indonesia's horticulture plantation and industrial forest crops; and in the processed food and wine industries.¹³⁹
- 4.163 At the most recent discussions between the Trade Ministers, held in Melbourne in November 2003, an agreement was made to identify specific sectors in the agrifood industry where both countries could benefit from further trade liberalisation and facilitation.¹⁴⁰ The Committee welcomes this move.
- 4.164 In its submission to the inquiry, the WA Government identified agribusiness as a major growth area.¹⁴¹

138 Submission No 83, p 23

139 Submission No 83, pp24-25

140 Submission No 119, p 2

141 Submission No 33, p 3 (WA Premier & Cabinet)

Automotive

- 4.165 Indonesia's automotive market has considerable potential. According to Austrade, the automotive trade has done well particularly in regard to components and tooling.
- 4.166 Austrade identified a number of opportunities in Indonesia for the Australian automotive industry including the supply of raw materials, automotive components, manufacturing technology and aftermarket products and accessories.
- 4.167 Austrade has been actively promoting the automotive sector. Initiatives included bringing buyers from Indonesia to visit the Automotive Aftermarket Association Show in Melbourne from 19-21 June 2003. It was also involved in bringing Indonesian automotive buyers to Auto Week in Melbourne in March 2004.
- 4.168 At the most recent discussions between the Trade Ministers, held in Melbourne in November 2003, an agreement was reached to hold an Australia-Indonesia Automotive Summit in Melbourne in 2004. Agreement was also reached on hosting a small Indonesia delegation, including from their Department of Finance, to examine Australia's taxation treatment of automobiles.¹⁴²

Education

- 4.169 Education is one of Australia's most important export earning services from Indonesia. Although the section below focuses on the economic importance of trade in education services, the Sub-Committee notes the equal strategic and cultural importance of the education relationship. These aspects are covered elsewhere in the report.

Offshore education services

- 4.170 With its origins in the Colombo Plan in the 1950s and 60s, the education services market has grown markedly to one where Indonesia has become one of Australia's top four markets in the Asian region¹⁴³, and the top source of school students at the school level.¹⁴⁴ The preferred destination for overseas study by Indonesians, Australia has approximately 18,000 Indonesian students studying in Australia each year, generating 'in the

142 Submission No 119, p 2

143 Transcript of evidence, Thursday 1 May 2003, p 229

144 Submission No 83, p 31

order of \$400 million per annum to the Australian economy'.¹⁴⁵ According to DEST, 'this places education services in the top three export earning sectors from Indonesia, along with cotton and wheat'.¹⁴⁶

- 4.171 In addition to the direct economic benefits, Australia benefits economically indirectly by the demand for Australian products from students returning to Indonesia after their studies in Australia as described by Austrade as follows:

The largest retailer in Indonesia has something like 70 supermarket stores across the archipelago and 2,500 Australian lines in their flagships supermarkets. That influence has not come from us to a large extent; it has come from the students who have come back and want their violet crumble bars and their cherry ripens and those sorts of things.¹⁴⁷

- 4.172 The phenomenon of Australia being the major supplier of offshore tertiary education is, according to Professor Hill, 'of immense significance if we capitalise on it and use it productively'.¹⁴⁸ Australia is an attractive destination for Indonesian students because of its proximity and accessibility, the perception that it is a safe place, the relatively low costs and, importantly, because it provides an opportunity for students to be immersed in the English language.

- 4.173 A key determinant of the strength of the appeal of Australian education is clearly also its quality. According to Professor Hill, it is important that the quality is maintained. To this end, he suggested, 'there is a case for maintaining the regulatory environment which ensures that quality and integrity is preserved'.¹⁴⁹ The Committee concurs with this view. It was pleased to learn, in supplementary material provided on this issue by DEST, of recent reforms which have enhanced regulation by 'allowing better monitoring of provider and agent activity'.¹⁵⁰ The reforms include the development of the Provider Registration and International Students Management Systems (PRISMS), a world first which, according to DEST, has 'put Australia at the forefront of electronic management of overseas student activity'.¹⁵¹ Other developments include the *Strengthening Onshore Compliance* initiative in the 2003-04 budget which increased resources for

145 Submission No 22, p 420, DEST

146 Submission No 22, p 420, DEST

147 Transcript of evidence, Wednesday 30 April 2003, p 179 (Austrade)

148 Transcript of evidence, Monday 13 October 2003, p 473 (Professor Hill)

149 Transcript of evidence 13 October 2003, p 478 (Professor Hill)

150 Submission No 115, p 8

151 Submission No 115, p 7

ensuring provider compliance with the *Education Services for Overseas Students Act 2000*.

- 4.174 Professor Hill made reference to the role that strong alumni networks can play in promoting Australian education and suggested that there was scope for the Australian Embassy in Jakarta to do more in this regard. The view was supported by his colleague, Dr Manning, who suggested that by the time students have reached important positions in Indonesia, their association with Australia has dissipated significantly. To counter this, he proposed that we draw from the Japanese experience and provide government support for the alumni relationships.

Looking at the Japanese experience, the Japanese have very solid alumni organisations. They are strongly supported by their foreign affairs ministry. They allocate money to support alumni relations and provide practical follow-up at particular institutions or provide information in certain fields and so on.¹⁵²

- 4.175 The Department of Education, Science and Training (DEST) referred, however, to the alumni network it has built up.

We have a strong alumni network which has been a source of considerable support over the last few years when some other aspects of our relationship with Indonesia have been strained. We have found that those people to people links that have been developed, particularly through education—through the alumni network and through current students—have been very supportive and have helped to keep the dialogue going between ourselves and Indonesia.¹⁵³

- 4.176 In a supplementary submission, DEST elaborated on the extent of the network and its relationship with the Australian Embassy and the AEI office in Jakarta.

The Australia-Indonesia alumni network has a good working relationship with the Australian embassy and the AEI office in Jakarta. Called IKAMA (which is short for Ikatan Alumni Australia) it has around 3,000 members, including graduates from the Colombo Plan, Australian Development Scholarships programme and full fee paying courses. Through the Embassy in Jakarta, AEI provides assistance to IKAMA valued at around \$25,000 to cover the use of premises adjacent to the Australian

152 Transcript of evidence 13 October 2003, p 479 (Dr Manning)

153 Transcript of evidence, Thursday 1 May 2003, p 228 (DEST)

Education Centre and for support staff. IKAM is currently engaged to prepare 250 alumni profiles for AEI to assist in generic marketing efforts. The alumni profiles will provide a useful balance between ethnic background, age, gender and home province to assist AEI marketing in Indonesia. The Counsellor meets regularly with the alumni and participates in their sports, social and philanthropic events. The Ambassador recently hosted a dinner for 35 prominent members at his residence.¹⁵⁴

- 4.177 Of the 18,000 students coming to Australia each year, approximately 2000 are from the schools sector. In evidence before the Committee, DEST mentioned that increasing numbers of students are starting to go to the Malaysia and Singapore's schools sectors from Indonesia.¹⁵⁵ The Committee suggests that this trend be closely watched and that consideration be given to ways of enhancing the schools market in Australia.
- 4.178 Given the value of the education services market to Australia, it would be useful to be able to easily monitor Australia's relative position in the region in terms of providing education services to Indonesia at the higher education, school and corporate training levels. DFAT's publication 'The APEC Region Trade and Investment'¹⁵⁶ provides detailed tables showing Australia's trade over the last decade in various services including travel and transport. The Committee considers that it would be useful if education services were treated in the same way and has written to suggest this to DFAT.
- 4.179 Ensuring that Australia's high standards in education are maintained and nurturing the links with students after their return to Indonesia are strategies that will provide the foundation for continued growth in this sector. There is also a place for direct promotional work. In this context, the Committee was interested to learn of a Study in Australia exhibition in Jakarta organised by Austrade in June 2002 in response to the growing interest by Australian educators in the Indonesian market. According to Austrade, the 'exhibition attracted 70 exhibitors and 4,280 visitors over the course of two days with 450 expected enrolments.'¹⁵⁷ In a supplementary submission, Austrade advised that the event was again held in Jakarta in

154 Submission No 115, p 3

155 Transcript of evidence, Thursday 1 May 2003, p 229 (DEST)

156 DFAT, *The APEC Region Trade and Investment 2003*, Commonwealth of Australia, 2003,

157 Submission No 83, p 32

June in 2003 with 47 institutions participating¹⁵⁸ The Committee was pleased to learn that the event is planned as an annual promotion and that discussions are underway for a third such exhibition to be held in Jakarta in 2004.

Other opportunities for Australian education providers

- 4.180 Indonesia, according to DEST, 'holds Australia's education system, standards, models and practices in high regard. According to DEST, with half of Indonesia's population of over 220 million being under 25, Indonesia 'will face increasing pressure on its capacity to provide quality education for all its people'.¹⁵⁹ The evidence that the Committee received about the match between Indonesia's interests and needs and Australia's capacities in this area suggest that there is considerable potential for Australia to enhance its already significant standing as a provider of educational product.
- 4.181 According to DEST, 'Indonesia views the development of in-country international education services as crucial to improving student choice and enhancing education standards in Indonesia'.¹⁶⁰ Clearly herein lie a wealth of opportunities for Australian education services providers.
- 4.182 DEST described a rich array of educational activities in which Australia is already working with Indonesia to further the reform of its education system. Many of the activities at the government level have as one of their objectives the development of the complementarity of the two systems in order to enhance the opportunities for Australian providers to offer their services within Indonesia.¹⁶¹ The activities encompass school and higher education, English language teaching, distance education, academic research and education management, skills training, standards frameworks and curriculum development.
- 4.183 Indonesia has made some moves since 1999 towards liberalising what was a highly regulated education system. As a result there has been a substantial increase in the number of partnerships between Australian institutions and Indonesian operators. While Australian institutions are not allowed to operate full branch campuses, there are 'now more than 300

158 Of the 47 institutions participating, 57% were from higher education; 32% from VET (Vocational Education Training); 4% from ELICOS (English Language Instructional Courses for Overseas Students); 4% from foundation studies institutions; and 3% from schools. Submission No. 119, p4

159 Submission No 22, p 3

160 Submission No 22, p 2

161 Transcript of evidence, Thursday 1 May 2003, p 228 (DEST)

agreements between Australian and Indonesian institutions under which collaborative projects and staff/student exchanges occur'.¹⁶² DEST advised that 'in addition to the 8 Indonesian National Plus Schools that offer Australian curriculum at the preschool, elementary and junior and senior high schools, a number of Australian higher education institutions deliver offshore foundation programs in Indonesia through approximately 30 local partner institutions.'¹⁶³ Demand for Australian courses is growing.¹⁶⁴

- 4.184 In a supplementary submission, DEST advised that there were some reports indicating that the Indonesian Government was drafting a regulation to allow foreign learning institutions to open branches in Indonesia. It added that it expected that they would still only be able to own up to 50 percent equity in Indonesian universities.¹⁶⁵
- 4.185 Opportunities are also increasing in distance education as Indonesia relaxes its restrictions on distance education and becomes more flexible in recognising qualifications provided by distance education.¹⁶⁶ Australia has an excellent reputation internally for its distance education. Distance education is highly cost effective and the Committee considers there is excellent potential in the long term for growth in this area. In this context, it was pleased that ministers at the most recent AIMF had noted the active links between Australia and Indonesia to develop distance education especially through the South-east Asian Ministers' Centre for Open Learning.¹⁶⁷
- 4.186 In the longer term there should also be greater opportunities for on-line education. DEST described the lack of infrastructure and teacher expertise in using ICT for education as factors currently hampering the growth in this area.¹⁶⁸ In giving evidence to the Committee, it explained that AusAID is working in Indonesia and looking at opportunities to implement activities there as part of the Virtual Colombo Plan the aim of which is increasing the use of technology in education.¹⁶⁹ The Committee considers that the future potential of on-line education warrants a reasonable investment in facilitating the uptake of technology in education.

162 Submission No 83, p 32

163 Submission No 115, p 6

164 Submission No 22, p 3

165 Submission No 115, p 6

166 Submission No 22, p 3 and Transcript of evidence, Thursday 1 May 2003, p 230 (DEST)

167 AIMF Statement, Working Group on Education and Training

168 Submission No 22, p 4

169 Transcript of evidence, Thursday 1 May 2003, pp 230-231 (DEST)

- 4.187 There are considerable opportunities for training at the corporate level particularly in the petrochemical, IT and telecommunications industries as well as in health services, hospitality and tourism. The Committee notes Austrade's description of the decline in the use of foreign trainers owing to a reduction in training funds.

There is a strong demand for corporate training however, with most companies having limited budget (post the financial crisis) there has been a reduction in the use of overseas professional trainers commensurate with a reduction in training funds. Equally, there has been a shift to the delivery of training services in-country to reduce costs and to a train-the-trainer concept so that local companies can conduct their own training at reduced costs. Most companies also now prefer to use local service providers (which quote in Rupiahs as opposed to US dollars) which are affiliated with and/or accredited with international organisations.¹⁷⁰

- 4.188 The Committee suggests that there may be opportunities here for the development of on-line corporate training.
- 4.189 The potential for Indonesia to take up the services that Australia has to offer is affected by the degree of restrictions still present in its policies regarding foreign operators in Australia. DEST described the two most significant remaining restrictions as being the lack of transparency in the regulatory framework and the lack of a framework for the recognition of overseas professional qualifications. In at least one of these areas, the Committee notes there has been some progress.
- 4.190 At the 2003 Australian Indonesian Ministerial Forum's Working Group on Education and Training, 'Education and Training Ministers noted that officials had agreed to work cooperatively to facilitate mutual recognition issues over the next few years as a priority area of activity.'¹⁷¹ In a supplementary submission, DEST advised the Committee that it has been agreed that the first course of action will be an information exchange on systems for foreign qualifications assessment. Following this, it has been suggested, 'that an exchange of visits by senior officials would take place to improve understanding of respective systems and facilitate discussions on specific activities to progress the issue for the next JWG meeting which is scheduled for late 2004'.¹⁷²

170 Submission No 83, p 33

171 AIMF, Joint Ministerial Statement from the Sixth Australia-Indonesia Ministerial Forum , Jakarta Indonesia 11 March 2003, p 7,

172 Submission No 115, p 7

- 4.191 While it is not possible to assess the impact that mutual recognition issues are having on demand for Australian undergraduate programs by Indonesian students,¹⁷³ the Committee considers the potential impact warrants every effort being made to resolve the mutual recognition issues. It encourages the JWG to continue its work in this area.
- 4.192 Indonesia's capacity to take up Australian education services is also constrained by its lack of resources.

173 Submission No 115, p 7

