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**ENHANCING THE AUSTRALIA-INDONESIA RELATIONSHIP THROUGH  
GOOD ACTIONS AS WELL AS GOOD REACTIONS**

There has been a lot of discussion in the past week about the Australia-Indonesia relationship is being strengthened by how we deal with shared tragedies. The sad events at Yogyakarta airport last week remain very much in the public consciousness of both countries. But so to does the way in which we responded.

Within hours of the accident Australia offered formal assistance through medical and forensic experts and Indonesia accepted without the slightest hesitation or concern. Indonesia lost 16 of its own citizens but President Susilo Bambang Yudhoyono promptly penned a thoughtful letter to our Prime Minister saying his people are forever grateful for the service and friendship of the Australians who died and were injured in the accident. Garuda Airlines provided the 737's charred black box flight recorders to Australian experts for download and the vital information was expedited back to the Indonesian authorities to assist the investigation. All this is tangible evidence of trust and practical cooperation.

There is no doubt relations between Canberra and Jakarta have been strengthened because of the bombings in Bali, the 2005 Boxing Day Tsunami, and the Sea King helicopter crash on Nias. It has also led to a strengthening

of relations between the citizens of both our countries – but here there is perhaps some way to go.

Each of the above tragic events has prompted empathy, cooperation and a steeled resolve to address future threats and challenges. In this light we can be thankful for positive outcomes from very negative experiences.

But it is Labor's firm view that the best way to build a relationship is not just by focusing on how countries *react* to unforeseen events – as important as that capacity clearly is – but rather how each can be *proactive* to act in our shared interests.

Good diplomacy must focus on identifying the opportunities on our mutual horizon and always discussing how together we can best grasp these opportunities.

In the 2006 Lowy Institute Poll - *Australia, Indonesia and the World*, Australian respondents thought that Indonesia benefited from having Australia as a neighbour. Australians believed that as a nation we had shown ourselves to be a reliable long-term friend to Indonesia. This may be the case, but as in any relationship – its success should never be taken for granted. It must be supported by forward thinking – consistently asking: how can our relations be further improved?

### ***New opportunities***

One of the best opportunities for Australia-Indonesia relations lies in the field of education. Enhancing the linkages of our education sector promises deep social and economic rewards for both nations.

Indonesia's proximity, its rich culture and climate have long attracted many tourists from Australia - in 2005 nearly 400,000. Indonesian visitors to Australia numbered some 81,000 last year. While there has been a steady

downward trend since 1998 (Indonesian visitors numbered 154,000 in 1996) the Indonesian figure is projected to reach about 200,000 within the next decade. This travel ensures both countries already have a decent sized class of cross-culturally aware citizens.

The opportunity presented here is to develop tourism and business interactions into exchanges and investment more genuinely focused on education and deeper understanding.

Last year roughly 15,000 Indonesian students were enrolled in Australian institutions – both secondary and tertiary. This ranks in the top 10 of international student enrolments by nationality. But this figure of 15,000 actually represents a 6.7 percent drop from 2005 figures, which was itself an 11 percent drop on the previous year.

The reduction in numbers is partially due to Australian universities offering an increasing number of off-shore programs in Indonesia – some 11 institutions now do so. But if you take into account the 2006 Lowy Survey, the decline may also be attributed to unresolved suspicions and negative public perceptions of one other.

The Lowy Poll represented public feelings between Indonesia and Australia via a thermometer. The poll determined that the Australian public's feeling towards Indonesia was a pretty lukewarm 50 degrees. In comparison Malaysia at 58, United States 62, Papua New Guinea 63 and Great Britain 74. Indonesian feelings towards Australia on the Lowy temperature gauge were similarly lukewarm – only one degree warmer at 51.

In August last year Mr Ross Taylor, WA chairman of the Australia Indonesia Business Council, pointed out that the number of Indonesian tourists coming to Western Australia has more than halved in the past decade. Mr Taylor also noted that the number of Indonesian students and people seeking medical treatment had steadily declined. The reason he put forward for the decline was speculated to be this lingering suspicion and negative attitude.

Singapore, Japan and Hong Kong are today actively promoting their education sectors. So the message for Australia is either compete by dealing with the underlying problem and reap the many inter-state economic and social rewards or watch our competitors prevail. If we watch on like sheep standing in a paddock we will loose out.

Labor believes far more effort can and should be put into building the incentive for Indonesian students to study within Australia. To achieve this, a more comprehensive program of public awareness about our neighbours needs to occur within Australia. The main cultural enemy to confront here is ignorance.

Within the Indonesian education system, English is being taught at an increasingly early age – it is a core part of their curriculum. Looking within the Australian education system, it becomes clear that young Australians are entering a multi-lingual global economy without the competitive linguistic skills required.

Dr George Quinn, the head of the South East Asia Centre at the ANU has noted a national decline in the study of Indonesian. This he attributes to factors including the Bali Bombings, the Shappelle Corby issue, and a general anti-Islamic sentiment in Australia. Given that language study is naturally accompanied by a familiarization with national culture, customs and history the depletion of Australia's Indonesia 'knowledge bank' is not just linguistic.

The inadequacy of knowledge was noted at an official level when, in 2005 ONA Director General Peter Varghese commented at a Senate Estimates hearing that the agency was struggling to find enough Indonesian linguists to fill established positions. Australia must address this 'Ba'hasa deficit' as a priority of national security. It is not just an issue of sensible and progressive secondary and tertiary educational curriculum.

The Indonesian demand for education is not limited to the University domain and certainly not limited to Indonesians studying here in Australia. As the Indonesian economy grows and labour market demands become more sophisticated it is being matched by an increased demand for vocational skills and training.

Expertise in information technology, clerical work, basic accounting and small business management is what Indonesia increasingly needs and wants. This presents Australian private enterprise in the vocational education and training sector with a terrific investment opportunity which would also serve to further develop the broader relationship between the two countries.

### ***Continued Indonesian economic reform***

Education is the sector of the economy that holds out enormous opportunity. The benefits for both nations also extend far beyond the financial - continued trade and investment across the economic board will only serve to strengthen our ties.

Over the last two decades, trade between Australia and Indonesia has continued to grow. This reflects liberalisation in both economies, as well as substantial growth within the Indonesian economy itself. In 2005 total trade between Australia and Indonesia was estimated at \$7.25 billion. Indonesia has progressively been strengthening Australian investor confidence by gradually improving regulations between Jakarta and provincial governments. This has occurred in order to obtain investment licences, and has increased efforts towards an overall simplification of trade licensing procedures. Labor fully endorses these efforts.

The Yudhoyono government is undoubtedly committed to making life easier for business in Indonesia. But there are still a number of bureaucratic obstacles to the pace of change. Concerns remain over corporate governance issues, judicial reform, entrenched vested interests – as well as national security. These all impede foreign investment. To sustain the growth pattern

of previous years, there is an ongoing need for Indonesia to reduce the volatility of investment brought about by uncertainty.

International investors, including of course Australian business, will unquestionably benefit from a successful implementation of a range of Indonesian Government reform packages launched in July 2006. These reforms are aimed at addressing issues such as infrastructure development, financial market reform and the deepening of local debt capital markets. Continuation of these programs is essential to the growth of both the Indonesian economy, and level of foreign investment. Australian financial experts have concluded that if President Yudhoyono can win the next election in 2009 there will be an extended time frame for Indonesia to move forward quite rapidly.

The volume of Australian investment in Indonesia at the beginning of 2005 was roughly \$2.3 billion. In a January 2007 market analysis the ANZ bank predicted that “with continued reform” Indonesia’s growth could easily reach 7 to 8 percent. This type of turbo charged growth would obviously receive huge interest from Australian investors. ANZ noted in its analysis that “Indonesia is one of only a few Asian countries where local debt markets are rapidly expanding”.

Another area where Indonesia is beginning to implement important structural reforms is in its mineral and mining sectors. The country’s mineral sector has potential for much investment if significant regulatory reforms occur. Even Indonesia’s Mining and Energy Ministry has reflected the market’s lingering doubts with Mr Simon Sembiring, a director general at the Ministry, saying in January this year in respect to the resources sector:

“It’s very difficult. Not only for people from overseas. Even local people do not want to invest their money. There is no certainty.”

Fortunately, a new mining bill aimed at easing foreign investor licensing is expected to pass the Indonesian Parliament in March this year. Resource

sector financial analysts have observed that the bill should reassure investors. On 10 January this year Macquarie Bank analyst Adam Worthington said:

“We expect the bill, once passed, to provide greater legal certainty to investors.”

Again there are benefits in reinforcing the opportunities of greater educational links. The teaching expertise Australian universities have in the fields of engineering, construction and architecture would be of enormous advantage to Indonesia as the resource industry explores and exploits new projects. There is an enormous infrastructure/construction knowledge base that Australian universities can provide budding young Indonesian professionals in these areas.

Indonesia's extensive and valuable natural resources also need to be sustainably managed. This is particularly the case for the Indonesian Forest Industry. The Forestry Department of the UN Food and Agriculture Organisation estimates that illegal logging accounts for 40 to 60 percent of the total industrial round-wood supply in Indonesia. Illegal logs are often smuggled to neighbouring countries without paying fees, contributions or tax.

When a business sector solidifies a corruption free reputation and when there is a market economy relaxed and open to foreign investment enhanced national security and stability tends to follow.

It is obviously in Australia's national interest to encourage our businesses to invest in Indonesia and encourage authorities in Jakarta to make investment opportunities as attractive as possible.

So what else can Australia do?

### ***Australia's Response***

#### *Dialogues*

Firstly, there is no doubt that Government can play a central role in actively promoting business dialogues such as the Australia Indonesia Business Council.

Secondly, the establishment of an Australia-Indonesia Leadership Dialogue - perhaps using the successful Australia-US Leadership Dialogue as a template - could be of significant mutual benefit to both government and business in our countries. While setting up a Dialogue would probably be best led and financed by the private sector, government – including the respective national parliaments – can undoubtedly play an important facilitating role.

#### *Trade*

In terms of trade, the success of the Doha rounds is a key aspiration. But Australia should – when hosting the APEC summit this year - take a leading role in strengthening APEC. APEC may become a mechanism to achieve a regional FTA.

#### *Small business*

Indonesia also presents a huge potential market for small-businesses. The Indonesian government is undertaking a range of programs to assist this including improving small to medium enterprise access to finance. The finance sector and Australian businesses generally have the opportunity to assist the development of small business

Indonesian small business craves technical assistance in computing and communications. Australia has the skills for this market. Many US firms are already active in this endeavour. Microsoft has donated over US\$3 million worth of software to Indonesian businesses, and is actively retraining many ex-bank workers who were made redundant after the Asian financial crisis.

#### *Legal expertise*

Recent democratic reforms and the scale and complexity of the Indonesian provincial political system have developed a substantial market for legal expertise. Australian law firms can help deliver these skills, in particular legal

and statutory drafting skills are valuable as is broad expertise in dispute resolution. A stable Indonesian archipelago is in Australia's regional security interests and our highly respected legal-system can contribute to strengthening the counterpart institutions and courts in Indonesia.

### ***Shared interest of regional stability***

Political instability – particularly when accompanied by a break down of the rule of law - undermines investor confidence, deters tourism, disrupts capital flows, and weakens the existing institutions of government.

Terrorist groups like Jemaah Islamiah, militant Islamist schools and inter-state criminal organisations therefore remain a threat not only to the safety of the Indonesian and Australian people but also to the strength of our economic relationship.

### ***Counter terrorism***

Australian and Indonesian counter-terror cooperation is on strong ground and we should seek to enhance our capabilities wherever possible.

The Australian Federal Police currently support the Indonesian police force through the Trans-national Crime Centre. Australian should continue to play a support role in developing financial and legal measures to identify and prosecute money launderers in Indonesia that fund terrorist groups like Jemaah Islamiah. This includes assistance to Indonesia's Financial Transaction Reports and Analysis Centre. The Jakarta Centre for Law Enforcement Cooperation (JCLEC) was also established in 2004 as a bilateral initiative.

The recently signed security agreement in November last year is clearly aimed at deepening and expanding bilateral cooperation and exchanges as well as intensifying cooperation and consultation between security and defence agencies. This includes the continuation of joint-military and police training.

The treaty is currently being examined by the Australian Parliament's Joint Standing Committee on Treaties and we look forward to seeing the committee's report.

Labor have already given in principle support to the Treaty. Labor sees the Treaty as going some way to meeting Labor's repeated call for the implementation of a comprehensive regional counter terrorism strategy for South East Asia.

We firmly believe a counter terrorism strategy should involve:

- An audit of our region's counter terrorism capabilities;
- The implementation of coordinated strategies of prevention and protection;
- An emergency response management framework (in the event that terrorist attacks occur); and
- A 'hearts and minds' strategy to address the underlying political, economic and societal factors which terrorist groups exploit to their advantage.

### *Maritime security*

Global shipping routes bottle-neck through the many parts of the Indonesian archipelago. Australia like the rest of the world relies on the security of those sea-lanes for flows of trade. Australia and Indonesia share the primary responsibility of ensuring the maritime security of those straits is comprehensive and strong. We also both have a vested interest in addressing illegal arms and drug trafficking.

The AFP and Indonesian security forces work very closely on these matters and opportunities to further develop this cooperation should be grasped in our proposed in our regional counter-terrorism audit.

### *Failing states in the region*

Recent events in East Timor and the Solomon Islands serve to remind us that the time has now well and truly come for Australia to review our strategy for dealing with failing states in our region.

In recent years we've seen a revolving door of military deployments to these countries because the Australian Government has failed to take effective measures to address the underlying social, economic and ethnic pressure that produce civil unrest.

Labor believes that the stability and prosperity in our region requires a more comprehensive and long-term approach than short-term 'band-aid' solutions to violent flare-ups. Indonesia can play an important role in assisting Australia address the 'arc of instability'.

In that context Labor aims to establish of a Regional College of Governance Administration and Security to assist in capacity building throughout the region. We see Indonesia playing a valuable role in providing input to training modules. Indonesian representatives would of course be welcome students at the college.

### *Bird flu*

The health of our citizens is central to national security of both Indonesia and Australia so we must continue to be proactive about strengthening our bird flu defences.

Australia has to date provided \$15.5 million towards combating avian influenza in Indonesia. This involves strengthening public awareness through information sharing It also involves supporting improvements in disease detection, diagnosis and containment. Australia and Indonesia need to ensure that they are as prepared as possible for these events. There was recently some disagreement over Australian access to flu-strain samples which are crucial to the disease preparedness - this must be mitigated to ensure that both Indonesia and Australia are able to effectively address this threat.

Equally Australia has not been as proactive as it could be in taking steps to assist Indonesia develop an immunisation program. The threat of bird-flu has the potential to rapidly defy borders, and warrants close attention from both countries. It is essential that we co-operate in terms of vaccine sharing, development and distribution.

### *Natural disasters*

Finally, history shows that man-made and natural disasters are an unfortunate reality in our region. Labor has proposed the establishment of a Regional Disaster Management and Co-ordination Centre to better facilitate and plan for a response to crises as they arise.

### **Conclusion**

The political relationship between Australia and Indonesia is fundamentally in good shape. The knowledge of this however, should not distract us from the task of pursuing a more comprehensive and mutually beneficial relationship

Closer ties can be made by addressing many of the underlying causes of negative social attitudes and public perceptions. The most effective way to achieve this is by enhancing our educational relations – at all levels of society, encompassing a broad range of skills and disciplines.

The enhancement of skills and the economic relationship is not only beneficial to business, but it serves as an effective and valuable promoter of regional stability and security.

A Rudd Labor Government will be focused on searching for opportunities to further develop the relationship and continue to build on our positive cooperative reactions – highlighted in times of crisis and tragedy.

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