



30 YEARS OF INSIGHTS
CAPABILITIES
& CONNECTIONS

Australia- Indonesia Relations During and After Pandemic

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A submission to the Parliamentary
Inquiry into the implications of the
COVID-19 pandemic for Australia's
foreign affairs, defence and trade

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Introduction

In 2020, Australia and Indonesia marked the 70th anniversary of the appointment of the career diplomat John Hood as Canberra's first ambassador to Jakarta. Hood's appointment on 22 April 1950 followed Australia's formal recognition of the Republic of Indonesia the previous December.

Australia had some success in the early part of 2020 in elevating the profile of the relationship to coincide with the anniversary year, notably with President Joko Widodo's 8-9 February visit to Canberra and address to the federal parliament.

This visit was widely seen as a success and served as a significant boost to relations following upheavals during the first term of the Widodo administration, when ambassadors were recalled, and during the second term of the Susilo Bambang Yudhoyono administration.

But the opportunity initially envisaged to build momentum in relations around the 70th anniversary and the signing and ratification of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) was largely overtaken by the public health and economic crises caused by the COVID-19 pandemic.

The task of both governments is to find ways to maintain forward momentum in relations during the pandemic and look for opportunities to develop relations post-pandemic. Arguably, Australia has not responded quickly enough in engaging with Indonesia, and other Southeast Asian countries, on the shared challenges posed by the pandemic. As a consequence, **it is imperative that there is a strong and coordinated government response to addressing the immediate and lasting impact of the pandemic on public health and on social and economic development in Indonesia.**

The experience of the pandemic undoubtedly will reveal new areas for mutually-beneficial partnership between Australia and Indonesia; it also will underscore the importance of deepening many existing areas of collaboration and following through on already planned initiatives that were put on hold because of the pandemic.

This submission, made with the support of Asialink, at the University of Melbourne—the foremost centre in Australia for the development of Asia engagement strategies—proposes a number of priority areas where action should be taken by government to ensure the Australia-Indonesia relationship emerges from the pandemic in strong shape.

It will address two broad themes—the first, economy and development aid, and the second, political and security relations—with the intention of making a number of constructive recommendations.

The Economy and Development Aid

Indonesia has been forced to look inward to deal with a challenge unprecedented in its post-independence history that is likely to undo decades of work aimed at reducing poverty. The support of neighbours and traditional development aid partners will be vital to ensuring it can deal with the effects of the immediate crisis and resume the work of poverty reduction.

The scale of the economic blow to Indonesia cannot yet be accurately calculated. Finance Minister Sri Mulyani Intrawati has acknowledged the extreme difficulty facing policymakers in establishing a reliable baseline for economic predictions.

The government [currently estimates](#) that this year the economy will contract by 1.1 percent to 0.2 percent. In the second quarter, the economy contracted by 5.32 percent. The government has forecast the economy to bounce back next year and grow by 4.5 percent to 5.5 percent, although it recognises the difficulty of making reliable forecasts while the COVID-19 pandemic is still unfolding.

As of mid-September, there were 225,000 confirmed cases of COVID-19, [according to the Ministry of Health](#), with daily new cases of between 3000 and 3500 being recorded.

It is noteworthy that prior to the current crisis the [World Bank estimated](#) that 9.4 percent of the population (about 25.1 million people) were in poverty and a further 20.6 percent of the population were in danger of falling into poverty because their income level hovered marginally above the poverty line. The [Ministry of Finance estimates](#) an additional 5.5 to 8 million Indonesians will fall below the poverty line unless they receive access to social assistance.

Working with Jakarta to meet the health and economic challenge of COVID-19 should be the highest short-term priority in the bilateral relationship. In response to two earlier crises—the 1997-98 economic crisis and the 2004 Tsunami—Australia was able to demonstrate its credibility as a friend and neighbour by making strong symbolic and practical offers of support. Those earlier cases should provide a baseline for Australia's response to the COVID crisis. Facing its own challenge from the pandemic, Australia has not acted with the alacrity and generosity that marked the Howard government's attitude to the earlier crises.

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The Development Aid Program

Australian aid to Indonesia is budgeted to be \$AUD 255.7 million in 2019-20. This compares to the \$AUD 887.7 million in [development aid delivered](#) in 2012-13. Although the decline in aid has tracked Indonesia's progress in reducing poverty, which fell from [27.4 percent in 2006](#) (measured as less than \$US 1.90 a day PPP 2011), it does not reflect the real challenges Indonesia continues to face in overcoming poverty, in reducing a range of health and social pathologies associated with poverty, and in building the kind of modern economy that in the long term will benefit Australia.

The impact of the COVID-19 pandemic on poverty reduction and on the strength of the economy in Indonesia warrants a reversal in the downward trend in development aid spending.

The [argument for an emphasis on programs to improve economic governance](#) has been made elsewhere and is a strong one. **Australian aid-funded economic governance programs support the strength of the entire relationship with Indonesia, and in particular are complementary to Australia's efforts to expand trade and investment under IA-CEPA.**

There also is a strong case for targeted programs aimed at supporting Indonesia's response to the immediate health crisis. Before the COVID-19 crisis, the Indo-Pacific Centre for Health Security within the Department of Foreign Affairs and Trade had started work on a [range of initiatives in Indonesia](#) to build capacity to meet health security challenges.

Australia should strengthen its commitment to infectious disease prevention and preparedness programs in Indonesia, building on those programs already in place.

This would be consistent with the health security pledges made by APEC leaders at the 2005 Busan summit and by APEC health ministers in their 2006 health security action plan. **There also is scope now to contribute to Indonesia's efforts to fight COVID-19 via agreements on access to vaccines, personal protection equipment, emergency medical supplies, and public health management.**

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In turn, this kind of far-sighted assistance could eventually help lay the foundation for [an expanded commercial relationship in health services and biotechnology](#), an area of demonstrable Australian expertise and competitive advantage.

Beyond humanitarian considerations, **Australia has strategic and economic interests that are served by a strong development aid program.**

As Australia steps back from development aid, other countries, including China, are liable to fill the gap. This has been in evidence during the pandemic crisis – [reports of donations](#) of Chinese medical supplies have received extensive coverage in the Indonesian and Chinese media. Chinese President Xi Jinping made an explicit commitment to support Indonesia during a phone call with President Joko Widodo in April. The strategic risks are manifest.

Other submissions on international development policy also have noted that in fields such as education reductions in Australian investment can open the door to other major funders, like Saudi Arabia, to exert its influence. Although the threat posed by radical Islam has received less attention in recent times, it has not disappeared. Australia's longest running education program in Indonesia—the [BRIDGE twinning program](#) which has run for more than 10 years involving thousands of schools—has been important in building capacity in Indonesia and supporting the Widodo administration's commitment to pluralism and tolerance. It has helped to develop linkages and shared understanding between Indonesia and Australia. Funding for the program is due to cease by the end of 2021. **The government should make a recommitment to the BRIDGE program.**

On both the strategic and economic fronts, it is vital Australia continue to encourage students that seek to pursue post-graduate education in Australia. Graduates of Australian universities have been indispensable to Australia's diplomatic and business networks in Indonesia. Any decline in the availability of Australia Award scholarships would represent a loss of long-term Australian influence and a gain for the countries where those students eventually do study.

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Trade and Investment Relations

The Australian government had drawn up an agenda for deepening economic engagement with Indonesia just before the pandemic struck. The government should ensure there is no loss of purpose in implementing that agenda for a significant expansion in the value of two-way trade and investment.

A robust trade relationship also serves to increase Indonesian interest in the strength of relations in other realms, including on strategic and security matters.

The immediate priority is to secure the full implementation of IA-CEPA. This will require the government to conclude its proposed Blueprint for Trade and Investment this year and establish the IA-CEPA Economic Cooperation Program with Indonesia. [The experience of other FTAs](#) is that business is often either slow to take advantage of the reduction in trade barriers or does not fully utilise them.

It is essential both governments work closely with their respective business communities to ensure the IA-CEPA reaps the intended benefits. An important prerequisite for engagement on the Australian side will be to expand the capability of boards and senior executive suites to operate in Indonesia. [The recent Asialink Business Winning in Asia report](#) highlights the Asia capability gaps among corporate leaders and suggests remedies to ensure companies are able to take advantage of opportunities in Asia.

Specifically, in Indonesia, **there is a strong argument for stepping up the representation of Australia's business community by the creation of a fully-fledged Australian Chamber of Commerce in Indonesia.** This is likely to initially require a level of government support and encouragement.

Notwithstanding the inevitability that COVID-19 will slow plans for deepening Australia's economic engagement with Indonesia. **The government should press ahead with initiatives already announced as soon as health security conditions permit, including a visit by the Minister for Trade, Tourism and Investment at the head of a senior business delegation and the creation of a CEO Roundtable.** This should be accompanied by a step up in the frequency of visits by other Commonwealth and State economic ministers. **Australia should consider resuming the Australia-Indonesia Ministerial Forum.**

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Trade and Investment Relations

Australia has worked closely with Indonesia on multilateral trade and economic governance via APEC and G20. They have both committed to sign the Regional Comprehensive Economic Partnership (RCEP) this year. Beyond this, Australia should encourage Indonesia to seek membership of the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP). All of these agreements generate increased momentum for market openness and a strengthening of the domestic treatment of foreign investment, especially the rule of law. **It is especially important for Australia to encourage Indonesia to stay the course of market opening to avoid the risk of a rise in economic nationalism and a turn to greater self-sufficiency following the pandemic.**

If Indonesia stays on the course of market opening, and resumes an economic growth path that is likely to make it one of the world's half dozen biggest economies in future decades, it could play a significant role in Australian efforts to diversify foreign markets. **To meet the needs of a growing middle class in Indonesia, Australia should lay the foundations now in areas such as health services and biotechnology, vocational and higher education, the digital economy, clean energy, and infrastructure development and management.**

As Indonesia grows, so do its economic ambitions. It has set the goal of becoming a high-income country by the middle of the century. This requires a move up the economic value chain. The Widodo administration's development strategy includes the expansion of heavy industry to add value to natural resources. A number of nickel smelters and lithium battery plants are either planned or under construction. A likely next step will be to expand steel making, positioning Indonesia as an alternative supplier to Southeast Asia of metal products. **While focusing on opportunities in the technology and services sectors, Australia should not ignore the potential for investment in heavy industries in Indonesia and/or for Indonesia to emerge as a potential minerals commodity buyer, given the close proximity to Australian mines.**

Increased energy usage as Indonesia industrialises and grows – [at about 1,000 kWh per capita](#), Indonesia's current electricity consumption is one tenth of Australia's – creates the potential for energy exports, particularly clean energy. **An industrialising and more energy intensive Indonesia could support an overall market diversification strategy for Australia.**

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The Political and Security Relations

The success of President Widodo's February visit underscored the positive state of relations between Jakarta and Canberra as both countries headed into pandemic lockdown and the forced suspension of a range of face-to-face contacts. It followed the signing of the Comprehensive Strategic Partnership (CSP) agreement in 2018, which provided a new policy framework for the relationship. When Widodo spoke to the Australian parliament, he emphasised the role Australia and Indonesia had played in assisting each other in times of difficulty and disaster.

However, there was a missed opportunity to consolidate the gains made during the Widodo visit with swift and generous support to Indonesia as the scale of the COVID-19 problem there grew during March and April. The arrival of Chinese medical aid in late March and pledges by both governments to coordinate their response to the pandemic in global fora gave China an edge in what is increasingly seen as a zero-sum competition for influence in the region between China and Western countries. China's aid was useful as well as timely – medical supplies included urgently needed virus test kits, N95 masks, surgical masks, personal protection equipment, and portable ventilators. By contrast, support by Western governments, including the USA and Australia, has been seen by many observers on the ground as inadequate and slow to materialise.

It is understood the Australian government is considering the form of an expanded assistance package to Indonesia. Any major assistance package will inevitably be compared with the two crisis packages offered to Indonesia by the Howard government. **Given the passage of time, and the scale of the twin health and economic crises confronting Indonesia today, there is a strong case for the real magnitude of assistance to Indonesia to be greater than during the 1997-98 economic crisis and the 2004 Tsunami. The depth of the health and economic hardship now being experienced in Indonesia will ensure the level of Australian generosity will be long remembered. This will ensure the symbolic and practical effect of Australian support is not lost.** As Widodo noted to the parliament: "Australia never leaves Indonesia's side during times of disaster. The people of Indonesia will always remember when Indonesia was struck by a tsunami in 2004 in Aceh. Nine Australian soldiers, sadly, perished while assisting their grieving friends in Aceh. They are patriots. They are friends of Indonesia and they are heroes of humanity."

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Defence and Strategy

Australia also can consolidate the relationship by laying the groundwork now to quickly scale up contacts and program activities as soon as health security conditions allow. A number of Australian Embassy and Australian Defence Force personnel, including staff college instructors, have been withdrawn. **In the event a vaccine becomes available, Australian government personnel overseas in high-risk areas, such as Indonesia, should be given priority access.** This will be important to maintain direct contact with their counterparts, as the representatives of many other foreign governments are doing. It is the view of Australian officials on the ground that the lack of personal contact seriously constrains their effectiveness. **Priority access to vaccines also should extend to families of personnel serving abroad to speed the possibility of reunions.** In many cases, Australians serving in Indonesia and other posts where the risk of infection is high have experienced many months of separation, adding to the stress of disrupted routines and isolation.

The preference for face-to-face contact should extend to some planned high-level government meetings. The Minister for Foreign Affairs and the Minister for Defence travelled to the USA to attend the AUSMIN talks. **The 2+2 foreign and defence ministers' meeting with Indonesia has been tentatively scheduled for November-December. While there are likely to be issues in coordinating with state governments to arrange a face-to-face meeting in Australia, the opportunity for a face-to-face meeting should not be missed.** The government should be open to the range of options for making this possible.

Likewise, the Indonesia-Australia-India Strategic Dialogue at ministerial level should be held as soon as practicable. The growth of strategic-level talks underpins the important point made in the joint statement of the last 2+2 in Bali in December 2019 that "Australia's and Indonesia's strategic outlooks are converging". Much more needs to be done to consolidate that trend, although it is noteworthy that Widodo made reference to Australia and Indonesia having "shared values", including the commitment to democracy and plurality.

The success of strategic-level talks underpins an array of opportunities for developing the bilateral political, defence and security relationship. These include joint operational and training activities in peacekeeping, the participation of Indonesian military personnel in exercises between the ADF and the US Marine Rotational Force-Darwin in humanitarian and disaster relief, cyber security cooperation, and in a variety of joint maritime activities.

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Public Perception

The extent of this bilateral activity provides welcome breadth and depth to the political and security relationship. But **Australia should not lose sight of the fact that perceptions of the publics in both countries lag the state of the official relationship. Surveys show a poor level of understanding and regard among the general public and elites in each country of the other.** Indonesian commentators have noted the findings of the 2019 Lowy Institute poll, which showed one percent of Australians thought of Indonesia as Australia's best friend and only 34 percent Australians thought that Widodo would do the right thing in world affairs, while 63 percent of Australians did not have confidence in Widodo.

Conversely, an Institute of Southeast Asian Studies' survey of a specialised pool of respondents from research, business and finance, public sector, civil society and the media in Southeast Asia, including Indonesia, showed only 3.4 percent had the confidence that Australia could provide leadership to maintain the rules-based order and uphold international law. In contrast, 47.3 percent had confidence in the European Union, located half a globe away, and 19.6 percent choose Japan. While most respondents thought the United States was no longer reliable, only 10.2 percent chose Australia as a strategic partner to replace the United States, while 30.7 percent picked the European Union and 29.5 percent picked Japan.

It should be a medium-to-long term priority for both governments to shift perceptions. This can be done through more intensive people-to-people contacts that will require greater freedom of movement between the two countries.

Post-COVID for good economic and political reasons, Australia should be encouraging greater tourist, student, work-holiday, and business travel from Indonesia. This will require a simplification of visa issuance and greater readiness to issue visas to the target groups.

A complementary measure is to encourage increased exchanges between non-government communities, including artists and performers, sportspeople, educators, academic researchers, and business people. The Australian government should press for reciprocity and encourage Indonesia to avoid putting in place measures, such as research visa restrictions, which discourage bilateral visits by academics and defeat attempts to increase knowledge and understanding.

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