

Ladies & Gentlemen,

My colleague Tony Mitchener and I thank you for inviting the Australia Indonesia Business Council to appear before your Committee today.

If this is an important bilateral relationship – if not *the* most important relationship - we think you will agree that we aren't paying it the attention it deserves.

An all-too-obvious reality makes the bilateral relationship between Australia and Indonesia difficult: the stark difference in our two cultures, our history, our social values. Knowing that we are so different, I am often disappointed not only by our inability to *understand*, but our unwillingness to *appreciate* the Indonesian perspective. When we make the effort, there are positive outcomes. But too often in our discussions with our neighbours we stick to our outdated default positions, steeped in myth and prejudice. To put it succinctly, we live with mutual suspicion. In our business community, we are afraid of the unknown. What we do know, we don't like.

These aren't opinions, they are conclusions based on reliable research in recent years. Much as we'd like to believe that business has little to do with politics and the only god is money, we must remember that people in business are also human. If anger and hate are at headline strength too often, we turn to our hearts not just our wallets. More often than not, I find our actions and reactions ill-conceived and poorly executed. Disappointing all the more because I believe we should know better. Privilege brings responsibility.

In September of 2014, PwC commissioned a survey of Australian businesses with the broad objective of understanding Australia's engagement with Asia. It ended up measuring disengagement, showing the surprising extent of collective apathy in this, the Asian Century. The report titled "Passing us by", details the findings and offers advice. It's a good read for anyone interested in Asia, business or otherwise. The

trouble is, most Australians aren't interested. It may be useful to reiterate some numbers. Altogether, there are some 400 Australian companies engaged in doing business with Indonesia. Of them, only 250 have any staff on the ground there. Collectively, we are Indonesia's 11<sup>th</sup> largest trading partner - not even in the Top 10. Of the A\$9 billion invested in Indonesia, the overwhelming majority is from a handful of companies in the mining and resources sectors. Tiny Singapore is the No.1. investor in Indonesia. For Japan, the No.2, it is the most-favoured investment destination for business. The Americans, the Germans, the British, the French, the Scandinavians and even the Spaniards are climbing up the Indonesian FDI rankings. In sharp contrast, Australia's No. 1 investment destination is New Zealand - not just historically, but in recent years as well. More Australian dollars went in to Kiwi commerce in 2014 than in to the Top10 ASEAN countries combined. We have over A\$85 billion invested in a country of 4 million people, more than 12,000 of our businesses actively engaged. The numbers speak volumes about the Australian business psyche.

While every apple, every block of cheese, every bottle of wine exported from our shores are a reason for celebration, we need to look at the transactional nature of our business dealings with a great deal more of introspection. Both Prime Minister Turnbull and President Widodo have repeatedly expressed their enthusiastic support for the IA CEPA, as have the Trade Ministers of both countries. All agreements between the two neighbours take on greater meaning in these turbulent times. With Donald Trump tearing up the TPP on his first day in office, the bilateral agreement has taken on even greater importance. The cooperation between our uniformed forces has remained strong for decades, despite the occasional bumps. With a rising China and an unpredictable United States, greater cooperation between Australia and Indonesia will have a calming effect across the region. The discussions for the Indonesia Australia Comprehensive Economic Partnership - IA CEPA - are currently underway. The Indonesia Australia Business

Partnership Group, the IA BPG, comprises the bilateral pairs of ACCI-KADIN, AIG-APINDO and AIBC-IABC. The group has made a written submission at the request of both negotiating teams, drawing attention to the overarching need for economic cooperation in general right through to sectoral opportunities in particular. The panoramic report is titled “Two Neighbours, Partners in Prosperity”. Both teams have been urged to attempt an ambitious agreement, with emphasis on the words Comprehensive and Partnership. Today, we worry we are stuck in the throes of a traditional FTA negotiation, with rounds of first, second and third offers. We see no sign of “The Big Idea”, under the auspices of “Economic Cooperation”, that will set the IA CEPA apart. This is the only way, we believe, that will enable us to take advantage of the obvious complementarity of the two very different economies.

Most people in business anywhere in the world would agree that exports alone cannot ensure a country's prosperity forever. The exceptions of course are oil-producing countries like Saudi Arabia but even their economies are in trouble today. China's changing of gears, the new focus on stimulating domestic consumption, illustrates the point. Confidence can only be generated by investments that grow in value, provide returns and build relationships. The overwhelming majority of Australian businesses are just not ready to go down that path in Asia tomorrow. To summarise, the response to Asia from the most of the 1216 respondents for the PwC report was something like this:

- Too different
- Don't understand
- That makes it too risky
- So we're not going

This kind of thinking ensures that two out of three Australian companies have no plans for Asia in the near-term. Making matters worse are two other key factors. First, if return on investment is say, 15 percent in 'risky' Indonesia, it is 10 percent in 'safe' Canada. Shareholders,



influenced by market analysts, are keener on 'safe' than 'risky'. As a consequence, CEOs of some of the biggest companies listed on the Australian Stock Exchange get their noses bloodied every time they utter the word "Asia". They end up looking for a safe bet in New Zealand or Scotland, just to keep their noses out of harm's way. That reality is discouraging many of our best and biggest, keeping them away from Asia. Instead of leading the way, our risk-averse Boards are poor role models for our SMEs. Only the adventurous few are exceptions to the rule.

Secondly, much of our media does a fine job of 'beating up' on Asia any chance they get. Xenophobic and parochial in the main, too many of our journalists seem unable to understand the very essence of doing business in a developing country: problems are many but most problems are opportunities. Risks are higher but so too are the rewards. Indonesia in particular has an additional hurdle that our media will harp on, subtly or otherwise - in a word, 'Islam'. Although the PwC survey did not address the topic directly, many of the interviews I conducted personally ended up with that off-the-record discussion. We could safely conclude that particular fear also drives more of our companies even further away from our near neighbour, the country with the world's biggest Muslim population. How many Australians know that it is by constitution a secular country, not the "Muslim country" it is often labelled by our journalists?

The most reassuring discovery from the survey was the fact that almost nine in ten Australian companies who had invested in Asia were pleased with their experience. All would maintain their interests and many would explore more avenues for growth. Equally, it became obvious that facts have the ability to dispel fiction - knowledge builds confidence. The big problem is that there is inadequate knowledge of Asia in Australia, both quantity and quality. With the resources boom behind us, the 'good old days' are not likely to come back to the 'lucky country'. We need to be a smarter nation. We need to invest to secure our future, not just export

and import while the sun still shines. Today's America may rest on the shoulders of their defence industry but it is companies like Google and Microsoft who will keep that country ahead of the rest in the years to come. We need to innovate, we need to create partnerships that we can take to the world. That will require business, government and academia to work together. We are not.

Australians as a people remain popular in Indonesia as around the world. Though we have no Samsungs or LGs to fly our flag, we consistently come a close fourth after the Koreans as 'most preferred country of manufacture'. Sadly, we have sold companies like Goodman Fielders, Arnotts, and CUB. And unlike our Kiwi cousins, we seem unable to build a brand in the way Fonterra has done with Anchor, all across Asia. Brands build stronger futures, especially in Asia, where economies are driven by consumers, not by resources exports or stock exchanges.

Miraculously, both sides of politics in Australia understand the need to engage with Asia. But business at large does not share that view, if actions are anything to go by. Perhaps our biggest test for engagement with our Asian neighbours is, however, the one across the Java Sea. But we are still unsure of our place in Asia. Commonsense demands we make friends with our neighbours. From an Australian perspective, the old 'tyranny of distance' from the developed West has now transformed in to the 'bonus of proximity' to the developing East. That is where our biggest opportunities lie, now and into the future. We run the risk of missing that boat.

To say that Australia is a net-importer of foreign direct investment and imply that we do not have the money to invest overseas is a childish argument that ignores basic truths:

1. Good business starts with good ideas, not money.
2. The world is awash with money looking for good ideas.
3. We are world-class in many sectors; we can create the ideas.
4. We can own businesses with money borrowed from the world.

In the overall strategy for Australian engagement with Indonesia, Austrade and the Department of Foreign Affairs and Trade have listed nine sectors as priorities. Listed in the public domain, they are, in alphabetical order:

1. Advanced manufacturing-automotive aftermarket
2. Agriculture and aquaculture-food sustainability partnerships
3. Creative, fashion and design
4. Education-transnational skills
5. Healthcare and seniors living
6. Infrastructure-urban sustainability and transport connectivity
7. Premium food and beverage
8. Resources and energy
9. Tourism

Who would argue with these sectors as priorities? They are the repositories of Australia's 'smarts'. They are proof of the fact that Indonesia's weaknesses are our strengths, their problems are our opportunities. And vice versa. They have a large domestic marketplace, a rapidly growing Middle Class and a big labour force. The complementarity of our two economies make the two neighbours ideal partners, not competitors. Australian businesses need to understand the value of investing in Indonesia, then using that partnership as a springboard into the emerging ASEAN Economic Community.

Considering all the reasons - good and bad - that are keeping us distant from our close neighbour, it is easy to give up in dismay. We can continue as we are for as long as we can, buying and selling in Asia, but not investing there. Or we can try and find another way forward. Conscious of the fear of the unknown, we don't travel too well alone in Asia. But the comfort of companions sharing a common interest in projects with promise may well be the answer to our trepidation. Projects that rally collectives could change the way we look at our neighbours. For example, a new tourism destination in Indonesia, one we could help

build from scratch. From Masterplan to Feasibility Studies, raising capital, then building and operating everything from Waste Management, Power, Roads, Airports, Ferry Terminals...right through to hotels, cafes, adventure sports clubs...to TAFES. Such a project would be both remembered and appreciated, by both Indonesians and Aussalians alike. Most importantly, from a business perspective, it would make money.

It is the investor and not the trader among us who will bring about real change in the bilateral relationship. That change will begin when hundreds and then thousands of our entrepreneurs engage in partnerships with counterparts in Indonesia. That day seems far away today, almost too daunting to contemplate, but till it comes, Indonesians will indeed remain strangers next door.

To those who say that the business of business is to make money not bilateral relationships, I would urge consideration of a few predictions:

1. Indonesia will be the 4<sup>th</sup> largest economy in the world by 2050
2. The Indonesian Middle Class will be 31 million strong by 2030
3. Australia will drop out of G20 by 2050

Where would we rather have our investments at that time? In neighbouring Indonesia or distant UK? If we do not wake up to the opportunities at our doorstep, the Asian Century will indeed pass us by. A small country and a Middle Power, it is time for Team Australia to realise that we all have a role to build a stronger future: Business, Media, Academia, Technology, Military and Government. Together, we can take a holistic approach to the relationship with Indonesia. Together, we can achieve what we cannot individually. A lean Task Force is a good place to begin charting our future. And we can certainly use our Aid better than we are. We need a plan. A plan that lives on, regardless of who's in power. We clearly do not have such a plan.

Thank you.

