

Department of Foreign  
Affairs and Trade country  
strategies submission

**Indonesia  
and China**



# Foreword

As a business operating across Asia Pacific for 50 years, Baker & McKenzie welcomed the *Australia in the Asian Century White Paper*, and welcomes the opportunity to contribute to the Department of Foreign Affairs and Trade country strategies for **Indonesia** and **China**.

Baker & McKenzie knows the two jurisdictions well, with offices in Hong Kong, Beijing, Shanghai and Jakarta. We advise both local and multinational companies, and we are connected to local and national governments. Through our experience, we have seen first-hand the development of enormous trade and business opportunities for the citizens and companies of China and Indonesia, and there is a lot that Australia can offer in return. Our clients in China and Indonesia tell us that they are looking for global best practice in the delivery of professional services - education, law, accounting and finance. Australia is very well placed to offer provide this.

We agree with the recently released *Australia in the Asian Century White Paper* that a successful strategy requires a whole of Australia approach. We also agree that it is necessary to build "Asia capabilities". For our part, at Baker & McKenzie we promote staff exchanges to both China and Indonesia, as well as to other parts of Asia. We believe that these exchanges are essential to our business, as they equip our staff with a base of cultural and professional experience which enables them to forge close relationships with our Chinese and Indonesian clients.

When designing relationship strategies, it is critical that the Government considers the viewpoints of Indonesia and China. We believe that Australia will only be able to successfully implement any plans for the Asian Century if it works constructively with its neighbours. For this reason, our submissions emphasise continued discussions between governments and businesses across the region. We suggest, including through our proposed "alumni" network, that more can be done to build and maintain dynamic relationships across the government/business divide.

Our submissions include five separate proposals. These proposals reflect our accumulated experience, and our knowledge of what works in practice. We commend these to you, and look forward to working constructively with the Australian Government as its strategies develop.



# Indonesia

Baker & McKenzie submits that there are three steps that the Australian Government can take to ensure Australia connects with Indonesia in a more productive manner. These are:

1. Expand Australia's diplomatic and trade presence outside of Jakarta.
2. Create an alumni network.
3. Promote Australian capacity in public private partnerships (PPP) to fund the development of infrastructure within Indonesia.

## Expand Australia's diplomatic and trade presence outside of Jakarta

### Background

A key centre of Indonesia's growth is in new second tier cities outside of Jakarta. While Jakarta remains a major contributor to Indonesia's economic output, it is cities outside of the capital which are experiencing some of the most significant growth.

### Recommendation

Recognising this shift, one of the approaches suggested, but not committed to, in the *Australia in the Asian Century White Paper* was the establishment of a consulate in Eastern Indonesia. We strongly urge the Government to implement this approach, and establish a consulate with trade representation in Eastern Indonesia, ideally in Makassar or Surabaya.

## Create an alumni network

### Background

Australia is a top listed destination for Indonesians wishing to study abroad. Indonesia consistently ranks within the top 10 source countries of international students to Australia, and was the eighth largest provider of overseas students to Australia in Financial Year 2012. Additionally, the Australian Government currently offers several scholarships to bright Indonesians through the Australia Award scheme.

The large number of Indonesians educated in Australia, including on Australian Government scholarships, provides a significant pool of human resources and business contacts which would be useful for Australian businesses to engage with. For instance, the Indonesian cabinet currently contains four senior ministers – the Foreign Minister, Minister for Finance, Minister for Tourism and Creative Economy, and the Acting Minister of Health – all of whom studied in Australia.

## Recommendation

We recommend that the Department of Foreign Affairs better leverage this Indonesian alumni network including by providing structured forums or avenues through which business can gain access to such alumni. We understand that the Government currently runs an alumni network for Australia Award recipients, and ran an alumni network within Indonesia which appears to now largely be inactive. We urge the Government to re-enliven these networks, expand the networks to include non-Australia Award alumni and open up the networks to the private sector. For instance, the Government could fly 100 top Asian alumni to Canberra or Sydney for a two-day road-show every year with key Australian business, keeping them up to date on what is happening in Australia and providing them an opportunity to meet leaders in Australian business.

## Promote Australian capacity in PPP to fund the development of infrastructure within Indonesia

### Background

Indonesia has an urgent need for more infrastructure. A recent presentation prepared by Austrade identified a US \$93 billion funding gap between Indonesia's infrastructure investment needs and its state budget.

In recent times, the Indonesian Government has emphasised the role of the private sector in infrastructure delivery. The Executive Brief produced by the 2012 Indonesia International Infrastructure Conference and Exhibition relevantly noted that:

*"The Government is committing to deliver over 32% of the total infrastructure needs identified in MP3EI – directly via the State budget (APBN – 7%) and indirectly via the State Owned Enterprises (SOE) to deliver an additional 25% of the infrastructure projects. Over 22% of the infrastructure projects are slated for delivery directly by the private sector – such as private coal rails, access roads, private ports etc. The private sector is also expected to play a key role in infrastructure projects delivered via Public Private Partnership (PPP) schemes (19%), that can be guaranteed by the Government's Indonesia Infrastructure Guarantee Fund (IIGF) and potentially qualify for the Viability Gap Funding (VGF) from the Ministry of Finance. The remaining 28% of the identified infrastructure expenditure remains as a funding gap representing additional opportunities for private sector investment."* [Emphasis added]

### Recommendation

Australia has a long track record of mobilising private and public funds to fund the development of infrastructure. Additionally, Australia has some of the strongest banks in the Asia Pacific region.



Australia's strength and experience in utilising private capital for infrastructure development, and Indonesia's need for greater private sector investment in this area indicates that this is an issue where the two countries have mutually complementary interests. Australia can add value to Indonesia's development by supporting PPP models through capacity development, and simultaneously build wealth and Asia capabilities among Australian companies.

We recommend that, twice yearly, Austrade in collaboration with Infrastructure Australia take a delegation to Indonesia comprising key policy makers and representatives from Australian companies involved in infrastructure delivery. Such a delegation could play a key role in delivering seminars to assist in the capacity development in Indonesia and also to facilitate greater investment by Australians in Indonesian PPP. By familiarising Australian companies with the Indonesian market and introducing Australian funding models to Indonesian regulators, such a delegation may further encourage the involvement of Australian financiers.

# China

Baker & McKenzie submits that there are two initiatives that the Australian Government can undertake to ensure Australia connects with China in a more productive manner. These are:

1. Better promote the open-door policy of FIRB.
2. Create an alumni network.

## Better promote the open-door policy of FIRB

### Background

Baker & McKenzie notes that Australia generally takes an open-door approach to foreign investment. However, without commenting upon the foreign investment policy settings as a whole, Baker & McKenzie submits that there is a perceived lack of transparency within Australia's foreign investment regime, particularly within China.

In particular, Baker & McKenzie submits that Australia has gained a reputation, particularly within China, for not welcoming investment from foreign government entities, such as Chinese State-Owned Enterprises. In light of the importance of Chinese direct investment to the growth of the Australian economy, FIRB's open-door approach needs to be promoted much more widely.

### Recommendation

Baker & McKenzie submits that greater efforts should be made to promote the open-door policy of FIRB. While we do not seek to suggest any substantial policy change, we recommend that FIRB representatives continue to make greater efforts to engage with the Chinese Government and representatives of Chinese business. The recent announcement following the Prime Minister's April 2013 visit to China of an annual bi-lateral dialogue is an important initiative, as was the recent trip by Brian Wilson, Chairman of FIRB to China in May 2013. But more can be done.

We suggest that FIRB representatives make two formal visits to China each year to Beijing or Shanghai, to meet with relevant Chinese officials and business leaders. This approach, which would clarify and communicate FIRB policy to relevant parties within China, would ensure that the benefits of FIRB's general policy approach are more widely known, and would further promote closer business ties between Australia and its largest trading partner.

## Create an alumni network

### Background

Baker & McKenzie notes that the *Australia in the Asian Century White Paper* supports the development of greater people to people links. This is laudable, and is a key part of building Asia capability among the next generation of business leaders. But more can be done, especially in the university sector. In 2012-2013, over one-fifth of all Australian student visa applications lodged and granted were from China. Although we note the significant contribution of the Australia China Alumni Association, a more coordinated and open approach led by Government would be valuable to keep track of these students.

### Recommendation

We recommend that the Department of Foreign Affairs better leverage this Chinese alumni network including by providing structured forums or avenues through which business can gain access to such alumni. For instance, the Government could fly 100 top Asian alumni to Canberra or Sydney for a two-day road-show every year, keeping them up to date on what is happening in Australia and providing them an opportunity to meet leaders in Australian business.



## Baker & McKenzie has been global since our inception. It is part of our DNA.

Our difference is the way we think, work and behave – we combine an instinctively global perspective with a genuinely multicultural approach, enabled by collaborative relationships and yielding practical, innovative advice. With more than 4,000 lawyers in 46 countries, we have a deep understanding of the culture of business the world over and are able to bring the talent and experience needed to navigate complexity across practices and borders with ease.

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