



# INNOVATION AND CHANGE

Forging the New Canada-Indonesia Partnership



## About the Global Security & Politics Program

The Global Security & Politics Program at CIGI focuses on a range of issues in global security, conflict management and international governance — a landscape that continues to change dramatically. Such changes are widely evident in the growing rivalry between China and the United States in the Asia-Pacific and the emergence of new economic powers in the region, such as Indonesia; the divergent ways Canada, Russia and the United States perceive Arctic security as melting ice opens up the Northwest Passage; continuing debates about the humanitarian imperative as the world confronts new crises in Africa and the Middle East; and new areas of concern such as cyber warfare and the security of the Internet.

With experts from academia, national agencies, international institutions and the private sector, the Global Security & Politics Program supports research in the following areas: Arctic governance; Asia and the Pacific; fixing climate governance; governance of conflict management, with a focus on Africa; global politics and foreign policy; and Internet governance.





# About CIGI

The Centre for International Governance Innovation is an independent, non-partisan think tank on international governance. Led by experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events and publications, CIGI's interdisciplinary work includes collaboration with policy, business and academic communities around the world.

CIGI's current research programs focus on three themes: the global economy; global security & politics; and international law.

CIGI was founded in 2001 by Jim Balsillie, then co-CEO of Research In Motion (BlackBerry), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario.

Le CIGI a été fondé en 2001 par Jim Balsillie, qui était alors co-chef de la direction de Research In Motion (BlackBerry). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario.

For more information, please visit [www.cigionline.org](http://www.cigionline.org).

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# WHY INDONESIA MATTERS

- Indonesia is one the largest countries in the world. It has the fourth-largest population — 255 million people — and is the largest Muslim nation.
- It has a land mass of 1.9 million km<sup>2</sup>, and an east-west distance wider than that of Canada.
- Indonesia is a major maritime state with over 17,500 islands, a significant “ocean estate” to manage, and the second-longest coastline after Canada.
- It is situated adjacent to major east-west sea lanes carrying over US\$5 trillion in trade volume annually.
- The population is urbanized, with 53 percent living in cities; this is projected to rise to 71 percent by 2030.
- It has a GDP of US\$889 billion, growing approximately five percent per year; the middle class will number 220 million people by 2030.
- Its GDP is the sixteenth largest in the world (the tenth-largest economy in terms of purchasing power parity), and is projected by McKinsey to be the seventh-largest economy by 2030.
- Indonesia has a young population — 40 percent of Indonesians are under 25 — and is one of the most connected nations in the world: it is the third-largest market for Twitter, the fourth largest for Facebook and has 220 million mobile phone users.
- The country is a young democracy and a model of harmony and tolerance, although with ongoing challenges.
- It is a G20 member with growing economic and political power on the global stage.



# INNOVATION AND CHANGE

## Forging the New Canada-Indonesia Partnership

### Preface

This report springs from discussions that several of us at CIGI have had with various stakeholders over the past year concerning Canada's often inexplicable inconsistency in its approach to the Asia-Pacific community. Canada has at times displayed energetic engagement and vision, while occasionally demonstrating uncertainty about whether it truly is a member of that community and ready to make the required multi-faceted effort.

This ambivalence — which has not gone unnoticed among Asia-Pacific partners — has had consequences in terms of the competition Canadians face, whether for markets or for influence on a range of issues of interest to us.

Although most Canadians are generally aware that the Asia-Pacific countries collectively will represent the largest centre of global growth for much of this century, the region is still not embedded as a fixed national policy priority or as a place where Canadians feel at “home.” While its trade and investment efforts in the Asia-Pacific have ramped up, Canada is still generally reluctant to fully engage with the region.

Canada's ties with Indonesia, despite the latter's size and growing economic and political importance, are symptomatic of this ambivalence. As one of the farthest countries from our shores, Indonesia is relatively unknown to Canadians. Yet, with its size and population, economic potential and central role in Southeast Asia, Indonesia is a “giant-in-the-making” that should warrant more attention.

It was this logic that took CIGI to Indonesia in early 2015 to create a partnership with the prestigious Centre for Strategic and International Studies (CSIS), and to hold a forum in late May 2015 in Jakarta to investigate the potential for a quantum step forward in our relationship and determine what needs to be done to get there. The forum involved more than 60 senior individuals from Canada and Indonesia drawn from business, think tanks, academia and civil society, including experts in various disciplines, as well as retired and serving government and military officials. There was also a separate workshop on how Canada might help Indonesia meet its governance challenges. On the same day, a meeting was held with local representatives of Canadian companies.

This report is drawn principally from the forum and related discussions, but has also benefited from research conducted before and after the forum and from the feedback of other

individuals and groups not present in Jakarta, including the members of an advisory group.

It is written largely for a Canadian audience, but we hope it will prove interesting reading for our Indonesian friends as well, and provide inspiration to both sides.

In content, this report sets out why Indonesia is relevant to Canada, highlights the challenges and opportunities we face in pursuing our relationship and assesses the drivers underlying our bilateral ties and international engagement. Above all, we seek, through this report, to describe the innovation and commitment that we believe are needed if the gap between performance and potential is to be closed.

We acknowledge that this report does not cover the bilateral relationship in all its details, but rather focuses on main areas, especially those where there is high potential.

The report concludes with a summary of what Canada's priorities should be moving forward with Indonesia, followed by a series of recommendations for concrete steps and actions. The opinions, conclusions and recommendations found in this report are those of the authors.

CIGI would like to thank the International Development Research Centre (IDRC), which contributed generously to offsetting the costs of the forum and governance workshop.

We are also grateful for the financial support of Bombardier, Canpotex and Manulife, and for the assistance rendered by Donald Bobiash, Canadian Ambassador to Indonesia, and his excellent embassy staff.

Finally, we would like to express our appreciation to CSIS, particularly to Jusuf Wanandi, Rizal Sukma and Clara Joewono for their generous welcome and leadership in bringing together a distinguished group of Indonesians at what we hope will be but the first meeting of the Canada-Indonesia Forum.

#### **Len Edwards**

Canadian Co-Chair, Canada-Indonesia Forum  
Distinguished Fellow, CIGI

*Indonesia-Canada Bilateral Forum  
Jakarta, May 26–27, 2015*

*Innovative Partnerships in Governance Workshop  
Jakarta, May 28, 2015*



## Executive Summary

There are few nations that have advanced so rapidly in so many ways and presented such scale of opportunity and challenge for Canada as Indonesia. This transformation, in conjunction with that of Southeast Asia writ large, has been under way for decades. Yet, until recently, Indonesia has received only sporadic attention from senior policy makers, all but a small group of committed business executives in a limited range of sectors and leaders of the academic and research community.

Amid this inattention, Indonesia is becoming an emerging nation of rising regional and global impact, and, by one estimate, will be the world's eighth-largest economy by 2030. Indonesia sits at a crossroads, not only economically but politically and strategically. In the past 20 years, it has become a functioning democracy, with institutions assuring a stronger, if still imperfect, rule of law. Demographically, Indonesia, unlike much of Asia, is still "youthful," with 40 percent of its population under 25. It boasts a 94 percent basic literacy rate, although with functional weaknesses. With 53 percent of the population living in cities, Indonesia has a growing middle class that is expected to number 220 million people by 2030, albeit with some outlying regions still marred by poverty.

Despite the constraints of an enormous, socially diverse archipelago, Indonesia has achieved strong economic growth at the national level and sustained remarkable unity and relative stability. However, its society is undermined by internal stresses, and the country is located in a region lacking effective security governance. Risks are increasing, with ongoing issues of resource competition, human trafficking, piracy and disputed waters in the South China Sea — all at hand with a rising and more assertive China.

The scope and record of Canadian engagement in Indonesia have been uneven. While its development efforts continue to shine and our "brand" is broadly positive, Canadians are seen to be inclined to short-term transactional approaches to commerce and as seldom staying long on the brief in terms of regional security. Partly as a consequence, Indonesians underestimate the advantages of working with Canada as a potentially valuable partner on the North American platform.

Some progress has been made. Ministerial engagement has improved, with the inception of an annual consultative forum and the adoption of a joint "Plan of Action" in 2014. Modest military contacts are in place. Two-way trade has expanded to CDN\$3.5 billion, and investment has started to recover in the past five years. Canadian development cooperation programs have evolved admirably, retaining focus on poverty reduction and capacity building, but with a new accent on governance and regulatory improvement. These elements are essential both in sustaining Indonesia's own progress and in complementing Canada's economic ties, in particular in the agriculture, energy/resources and service industries.

Yet there are gaps in performance and a feeling that Canada's engagement is far from having reached its potential. Trade is limited outside energy, agriculture and finance. Canada's share of the Indonesian import market stands at only one percent. There are no direct flights between Canada and Indonesia — or any other Southeast Asian destination — limiting tourism and people-to-people contact. The small number of Indonesians studying in Canada — less than 1,200 — is of concern, as international education and study- abroad programs can have a positive impact in a relationship where mutual awareness is so low.

Despite these issues, there are significant drivers drawing the two nations together — bilaterally and internationally. Whether in products, services or "systems," there are key economic complementarities where Canadians are well positioned to respond to Indonesian objectives: to raise agricultural productivity and food security; upgrade Indonesia's infrastructure, especially in transportation and power, and in developing energy and resources in a socially responsible way; reinforce its financial services sector's ability to mobilize capital for key projects or meet the needs of middle classes; and raise the quality of Indonesia's labour force.

Moreover, there is a convergence of skills, interests and values between Canada and Indonesia, as the latter seeks to consolidate its democracy and legal systems, and modernize its regulatory structures and practices. Importantly, both countries have a shared maritime setting with experience to share in coastal



Indonesia has an east-west distance wider than that of Canada and is a major maritime state with the second-longest coastline after Canada. iStock.

security and in functional areas such as fisheries management. Both share membership in regional fora such as Asia Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN) Post-ministerial Conference, and at the global level through the Group of Twenty (G20), which creates imperatives to build bridges and relevant agendas in trade and investment facilitation and liberalization.

At the same time, there are constraints — these need to be recognized and sound innovative strategies need to be developed in order to overcome them. Above all, the tyranny that distance imposes must be overcome, by expanding on-site engagement and raising mutual awareness.

In the effort to capitalize on the opportunities before Canada in this dynamic nation and to overcome the constraints that exist, it is clear that the time is now for Canada to make a strong, visible commitment to its future partnerships with Indonesia and, through Indonesia, to the wider Southeast Asian region.

Canada has been perceived by Indonesians as self-interested. Its approach cannot be solely transactional and preoccupied by commercial objectives. It must be long term and multi-faceted, and based on a cooperative and mutually beneficial partnership. Priorities must be clear and persistently and smartly pursued.

This effort must involve governments at the highest possible level — in both directions. At the same time, it must include the fullest involvement of leaders in business, academia and civil society. It must, above all, employ the most innovative possible means of engagement.

The vision of partnership is one that involves Indonesia at a “first tier” in Canada’s Asia-Pacific relationships — one that aligns Indonesia’s sophistication with the scope of opportunity, the measure of effort required and the reality of a nation and region whose security and prosperity is at one with Canada’s.

To reinforce this alignment, this report’s specific recommendations span efforts to:

- upgrade the political relationship commensurate with Indonesia’s rising profile — and its relevance to Canadian interests and values;
- re-engage in security dialogue, with special attention to the maritime dimension and to the “security-economic nexus” raised by global value chains and territorial disputes;
- build economic relations with Indonesia/ASEAN to a depth befitting other major emerging economies;
- signal a long-term commitment where Canada adds value to cooperation in governance, mobilizing new players on democratic practice and citizen engagement; and
- raise mutual awareness with targeted educational partnerships, youth engagement, high-level visits and the launch of a “Year of Canada in Indonesia.”

Noting the challenges that exist, it is the view of this report that the outlook for the potential of Canada-Indonesia ties is one of optimism and confidence. What is needed is to mobilize the effort required, in and out of government, and sustain the pace of engagement over the medium to long term.

## Why Canada-Indonesia? And Why Now?

Almost 75 years ago, the famed Canadian political writer Bruce Hutchison coined the term “the unknown country” to describe a changing Canada. Today, that same term might well be applied to a changing Indonesia. Over the past two decades, no major developing nation has undergone so many dramatic transformations, so rapidly, with so little notice from Canadians. At the same time, Indonesians have tended to lose sight of Canada, and underrate it as a partner of consequence and value.

Still, the relationship has grown. The Canadian government has made some good choices, notably in its development cooperation program in Indonesia. So have a number of far-sighted Canadian companies — supported more recently by a modest but useful measure of political re-engagement.

However, the growth in the relationship has been uneven and is not meeting its potential, leading some to call it “underwhelming.” The political signals from Canada have been at times ambiguous. Consistency and commitment have been lacking by both government and the private sector, and perspectives have been, arguably, too narrow and short term. Setbacks have often been followed by abandonment, rather than by doubling down or retooling, and, as a result, Indonesians have not been knocking hard on Canada’s door.

Distance and lack of knowledge remain major barriers to Canadian engagement with this truly remarkable country — the world’s fourth-most-populous nation, a multi-ethnic state (but largest Muslim country) spread over 17,000-plus islands, large and small, whose total east-west geography exceeds the length of Canada.

Against this backdrop, and notwithstanding its dynamic economic growth, democratic progress, regional leadership and G20 credentials, Indonesia has thus far failed to acquire the profile enjoyed by other major Asia-Pacific nations — China, Japan, Korea and India — as a present or future partner for Canada.

Can a stronger, more consistent and more innovative Canadian approach to Indonesia change this situation? What should be the elements of that approach? Can Canadians (and Indonesians) be persuaded that it is worth the effort to pursue the benefits that could flow from an upgraded relationship? For Canada, do the benefits stop with Indonesia, or can Indonesia be the strategic anchor of an effort to upgrade its ties with Southeast Asia as a whole?

## Canada-Indonesia 2020: What Kind of Partnership, Ideally, Would We Like to See in Place by 2020?

- A setting in which **Indonesia is the indispensable anchor of deeper Canadian engagement with ASEAN**, spanning security, economics, democratic development and people-to-people ties.
- A practice is in place featuring **regular consultation between Canadian and Indonesian officials on present and emerging threats to peace and security**, and wherein joint initiatives are commonplace in addressing specific regional problems, notably on maritime issues.
- Whether with business organizations, research institutions or civil society groups and whether on matters of commerce, security or democratic governance, **direct contacts between stakeholder groups will have become commonplace** — and supported by governments — with recommendations factored into policy and operational planning.
- A situation wherein trade and investment flows are substantially “free” in both directions, regulatory barriers are minimized and disputes are easily managed either **within a comprehensive bilateral economic agreement or as partners in a regional arrangement**.
- **Two-way merchandise trade levels will have more than doubled** to at least CDN\$8 billion, with service transactions also expanding at faster rates.
- **Investment by Canada in Indonesia will have doubled** to CDN\$7 billion in cumulative stock, with Indonesian investment in Canada also rising significantly over its current low level.
- **Business confidence will have improved through the signing of a Foreign Investment Promotion and Protection Agreement (FIPA), a taxation accord, infrastructure improvements and consolidation of economic and regulatory reforms**.
- **Airline links** will have been significantly improved, including at least one airline offering regular, direct flights between Canada and Indonesia or another Southeast Asian destination, which represents a crucial component of an enhanced relationship.
- There will be **increased media coverage of Indonesia and Southeast Asia in Canada**, with at least one full-time correspondent from a major Canadian media organization.
- The number of **Indonesian tourist arrivals in Canada will have tripled**, supported by enhanced visa processing arrangements and stronger air links.
- **The number of Indonesian students studying in Canada will have quintupled**, with working holiday and internship exchanges under way. This will be facilitated by **at least five institution-to-institution education and training partnership arrangements** being in place by that time. The number of Canadian students in Indonesia will also have increased, developing connections and cultural awareness.
- From the present very low level, **cultural links will have been expanded dramatically**, in the performing arts, visual arts, design, fashion and digital content.
- **In short, by 2020, the Canada-Indonesia relationship will have acquired a comparable level of instrumentation, intensity, diversity and maturity — and performance — as that of Canada’s relationships with other major Asian nations such as China, Japan, Korea or India.**



In any scenario, the underlying premise is that, whether in security, economic development, trade, governance and people-to-people ties, Canada and Indonesia can add value to each other — more than either side has, to date, recognized, let alone acted upon.

For Canada, amid the dynamic and complex developments in East Asia, and in relation to the more determined activities of its competitors for political influence on key emerging issues and for economic advantage and position, the opportunity costs of *not* developing this strategic relationship are rising rapidly and significantly.

Why is Canada a good strategic partner to Indonesia? It is a fellow member of the G20, a key player on the North American platform, a potentially beneficial ally in Asia-Pacific affairs in both economic and security terms, a potential contributor to Indonesian growth and prosperity, and a non-imposing model on issues of governance reform. Canada possesses recognized know-how in areas of great importance to Indonesia: transportation infrastructure (air, land and maritime); resource management; skills and education management; public administration; good governance; development cooperation; and good practices related to multiculturalism.

## The Setting: Indonesia Today

Indonesia has a population of over 250 million people, with a GDP of US\$889 billion (in 2014) and growing at approximately five percent a year. According to a McKinsey Global Institute report in 2012, Indonesia is expected to become the world's seventh-largest economy by 2030, surpassing Canada (it is already sixteenth, while Canada is eleventh) (Oberman et al. 2012). While savings and investment rates run well behind those of China, Indonesia's economy, rather like Canada's, is still resource-based, but transitioning to new and expanding roles for manufacturing and services to meet the demands of its domestic market, and potentially represents a supply base for the ASEAN region. The government has adopted sound industrial development policies in some areas, but has succumbed to the allure of sometimes-costly import substitution in others. Some policy decisions have also created uncertainty for foreign investors (Chilkoti 2015). There are consequences for productivity and cost competitiveness, aggravated by transportation bottlenecks. Nevertheless, Indonesian companies, including small and medium-sized enterprises (SMEs), are beginning to display increasing savvy in global finance and commerce, and more innovative drive than is generally acknowledged in mainstream media or by the international business community.

Demographically, Indonesia has a rising middle class that, according to the Asian Development Bank (ADB), will reach 220 million people by 2030 with an average per capita income of USD\$13,500. It boasts a 92.8 percent adult literacy rate (United Nations Children's Fund 2013). Secondary and post-secondary education and vocational training are improving,

but still lag in attendance and completion rates, with serious concerns over teacher quality at all levels, and shortcomings in providing graduates with the right training to meet labour force requirements. With 53 percent of its population already living in cities, a figure expected to rise to over 70 percent by 2030 (Oberman et al. 2012), Indonesia is urbanizing rapidly. However, poverty reduction remains an ongoing challenge, with 43 percent of the population subsisting on US\$2 or less per day (Global Affairs Canada 2015), serious regional and social disparities, and significant physical and social infrastructural weaknesses. Indonesia is highly “connected,” with over 220 million mobile subscribers (Oberman et al. 2012). While other East Asian nations (including, increasingly, China), must contend with the pressures of aging, Indonesia is a society that is remarkably “young,” with a rising labour force. However, this youthful population will only be leveraged if the Indonesian government properly addresses the shortcomings of the education system.

Moreover, there are pressing imperatives to further modernize regulatory frameworks and business practices in line with the rigours of a global economy. At present, the World Bank (2015) places Indonesia at 163 out of 189 economies in terms of ease of starting a business. Focus must be placed on the establishment of best practices for resource development and infrastructure improvement and in streamlining approaches to the upgrading of labour force skills, all with a view to consolidating Indonesia's status as an emerging economy. There are also ongoing challenges not only in maintaining the pace and implementation of past economic and financial sector reforms, but in consolidating Indonesia's democratic progress — and in communicating effectively that these changes are genuine and meaningful.

The good news is that many Indonesians, including President Joko Widodo (better known as “Jokowi”), understand the urgency of regulatory modernization in strengthening Indonesia's global



Muslims praying in the streets in front of the Masjid Istiqlal in Jakarta, on the last day of Ramadan. iStock.

competitive status, as well as the importance of building and reinforcing confidence at home and internationally by making further progress in improving transparency and in addressing the difficult issue of corruption.

As the world's largest predominantly Muslim nation, Indonesia is becoming a model of tolerance amid diversity, despite some difficult recent history. Tensions do exist and Indonesia's social harmony and domestic peace cannot be taken for granted. They present a challenge for the rule of law to prevail, even though most Islamic fundamentalist groups have eschewed violent tactics. However, the terrorist attacks in Jakarta on January 13, 2016, provided a stark reminder that the battle against extremism in Indonesia is not over. In the short to medium term, while the risk is manageable, stability remains critical in sustaining prosperity and will require ongoing attention.

Above all, Indonesia's maritime reality poses a challenge not only to national unity and economic development, but also to regional security. The archipelagic nation is adjacent to the critical sea lanes of the South China Sea, through which an estimated US\$5.3 trillion in commerce flows passes annually. This region has been rife with tensions due to long-contested maritime boundaries, resource competition and a newly assertive Chinese posture. Inasmuch as Indonesia itself is without a major territorial dispute with China, at least four of its ASEAN partners (the Philippines, Malaysia, Brunei and Vietnam) do have such problems. The relative lack of truly effective dialogue and conflict management systems in the region compounds the tensions.

With all its strengths, and despite its challenges, Indonesia is a growing force to be reckoned with, both in its own right and as the predominant power of the increasingly dynamic and strategically critical Southeast Asian region. At home and beyond, Indonesia has achieved a great deal. In all scenarios, on its own and as part of the region, Indonesia is a partner of opportunity for Canada — as is Canada for Indonesia.

## Canada and Indonesia: Moving Ahead, But Is Enough Being Done?

The Canada-Indonesia bilateral relationship has long been a positive one. Indonesia credits Canadian diplomats with helping pave the way for its entry into the United Nations following independence. Canadians and Indonesians have worked productively together under the Colombo Plan, and thereafter in such institutions as the ADB, the ASEAN Post-Ministerial Conference and Regional Forum, and APEC, as well as in a number of tripartite or "track two" processes on economic and security matters. They now work together in the G20 at the leaders' level.

Canadian election observers and peacekeepers played a significant role in easing the transition to independence in East Timor. A series of modest military cooperation programs and training-related initiatives as well as human rights dialogues have continued over the years — now joined by exchanges on religious freedom.<sup>1</sup>

Canada's development cooperation has been a major long-term component in relations between the two nations, contributing positively to Canada's image in Indonesia, while evolving significantly in recent years toward a strong accent on governance enhancement and social inclusion, and matching up with Canada's areas of value-added capability and economic engagement. Indonesia was confirmed as a country of focus for Canada's international development efforts in 2014, with disbursements of close to CDN\$30 million in 2012-2013 (Global Affairs Canada 2015).

However, in terms of economic relations, the pace of growth was stalled from the late 1990s until very recently. Canada's share of the Indonesian import market, while never higher than two percent during the 1970s and 1980s, now hovers around one percent. With the exception of some agricultural and related sectors, Canada has found it hard to sustain its profile in Indonesia in the face of regional economic integration — or relative to Indonesia's other trade partners such as Australia and some European Union nations.

In 2014, Indonesia's share of Canadian investment to Asia was only about seven percent. In terms of business presence, and noting important company exceptions, the overall image is one of Canada drifting to the margins of the new Asian reality.

This picture is not completely bleak, however. Merchandise trade has been expanding, reaching a respectable CDN\$3.5 billion in both directions in 2014 (Asia Pacific Foundation 2015a) and trade in services has also risen in recent years.

While Canadian investment in Indonesia was relatively flat through most of the past decade as project setbacks and instances of corruption in the mining sector chilled business confidence, there are now signs it may be recovering, especially in the energy sector. Canadian direct investment recovered to CDN\$4.3 billion in 2014 (Asia Pacific Foundation 2015b).

Indonesian investment in Canada remains very small, estimated by the Canadian Socio-Economic Information Management System database at approximately CDN\$4 million. Growth will likely depend on the degree of success in its current resource-related investments in natural gas and wood pulp, and to the extent there is follow-on activity, as Indonesia becomes a more outward-looking economy.

The growth of two-way investment is critical for the future. It will have a positive impact, not only by enriching the quality and

1 Building on the 2014 Bilateral Plan of Action, Andrew Bennett, Canada's Ambassador for Religious Freedom, made an official visit to Indonesia in May 2015.



depth of Canada's economic engagement, but also in building greater mutual awareness and longer-term commitment.

Overall, the current picture of Canada's economic interchange is mixed and clearly not reaching its potential. Growth has been mainly incremental and, until recently, in a fairly narrow range of sectors. Its character has been mainly transactional.

Longer-term and more complex Canadian business relationships with Indonesia involving investment, innovation and value-chain-based commerce have been the exception. With the exception of some service sectors, Canada and Indonesia, for the most part, participate only at the first stages of each other's value chains. The knowledge industry's engagement in Indonesia renewable energy and information and communications technology, in, for instance, while noteworthy, has been limited in scope until recently. The depth of economic integration is still very modest, in particular compared to Canada and Northeast Asia.

In the security domain, the ending of the high-profile Canada and Indonesia-led South China Sea workshop process<sup>2</sup> — particularly as it was not replaced by any other mechanism — was widely seen, in conjunction with a period of minimal visibility in ASEAN-based dialogue processes, as evidence of a diminished Canadian interest in partnering with Indonesia on critical regional issues and as a sign of lessened commitment to the peace and security of Southeast Asia.

This is notwithstanding the region's emerging strategic and economic importance in the world, and the further consolidation of the Asia-Pacific "community" in which Canada had hitherto professed itself to be a member, but was now on the outside looking in as new key institutional mechanisms such as the East Asia Summit and the ASEAN Defence Ministers-Plus (ADMM+) took shape.

Indeed, regional security issues in Southeast Asia have taken on a new profile, due to concerns over terrorism, migration, resource competition and territorial disputes. The latter includes episodes of confrontation in the South China Sea between a more assertive and force projection-capable China and Indonesia's ASEAN partners. With recent escalations in rhetoric, island building and even some incidents involving the United States, regional tensions and fears of actual conflict are increasing.

In people-to-people terms, the record has also been mixed at best. Exchanges and partnerships in the education sector did not grow nearly as quickly or deeply with Indonesia as they did with some East and Southeast Asian nations. However, there



McGill University's Morrice Hall, which houses the Institute of Islamic Studies and the Islamic Studies Library. Photo courtesy of daryl\_mitchell, Flickr.

were a few successful endeavours that have left lasting positive impressions, such as the collaboration between the Institute of Islamic Studies at McGill University in Canada and the State Institute of Islamic Studies in Indonesia, as well as Humber College's partnership with seven universities in North and South Sulawesi in the field of entrepreneurship education.

Fortunately, some tentative steps forward in the relationship have been taken since 2010. This has been enabled by the fresh and positive attention that Indonesia's rapid economic growth has attracted in Canada, as well as its very successful transition to the world's third-largest multi-party democracy. While growth has slowed down in 2015 with the downturn in China, long-term prospects are still bright.

The main political development reflecting this improved outlook for Canada-Indonesia relations has been the creation of a ministerial forum and the consolidation of a broad-based agenda under the "Indonesia-Canada Plan of Action 2014–2019,"<sup>3</sup> signed by the two countries' foreign ministers in the summer of 2014. Although the model put in place is fairly conventional and the Plan of Action agenda is rather general and incremental in style and substance, the initiative and the associated ministerial involvement provide an opening for new momentum in Canada-Indonesia ties.

A clear and concrete strategy to build on this Plan of Action is needed now. In order to create momentum, enhance awareness and engage broader participation, this strategy must be well communicated and punctuated by some major events.

2 These workshops, funded by the Canadian International Development Agency (CIDA), took place from 1990 to 2001, involving scholars, experts and government officials in their personal capacity. One novel aspect was the presence of participants from both China and Taiwan in several of the workshops. Territorial disputes and confidence-building measures designed to manage them were looked at, as were options for joint resource development and functional cooperation at a technical level. CIDA funding ended in 2002.

3 The Plan of Action is a broad road map for enhancing bilateral relations between Canada and Indonesia through cooperation on political, defence, economic, socio-cultural, scientific, technological, educational and other issues.

## Drivers and Opportunities: Incentives to Expand and Upgrade

Fortunately, there are many incentives to action in the relationship. They are underpinned by significant “drivers,” ranging from complementarities in capacities and needs to similarities of setting and outlook to the nature of regional and global dynamics. If properly leveraged, these drivers can draw Canada and Indonesia much closer together. Many of the opportunities for Canadians in Indonesia, and the advantage they may have in pursuing them, arise from the circumstances and challenges facing Indonesia today and the similarities of perspectives that Canadians and Indonesians share, some to a surprising degree.

### Opportunity: The Potential for Growth in Canada’s Economic Partnership Is Immense

While the simple expansion of trade is one opportunity, the development of deeper business engagements that tie Indonesian priorities more closely to innovative and sustainable Canadian solutions offer even more promise. These solutions will take the form not only of products, software and services, but also the systems and models needed by Indonesians to realize their corporate goals and national objectives. Because Canada is distant and relatively unknown, our sectoral priorities and capabilities must be made clear to Indonesians.

Canadian companies that are already active and physically present in Indonesia, some with decades of experience, know well the challenges that new entrants face. Their representatives point out that with so much opportunity available in Indonesia, companies need to exercise a high degree of selectivity in the choice of ventures. Step-by-step approaches are advisable in the Indonesian context. The promotional tools must be the right ones, and always sensitive to local conditions and practices. Businesses should develop strong local alliances and networks underpinned by carefully tended personal relationships.

Canadian government trade promotion resources and Export Development Canada (EDC) should continue to play a strong role in enabling greater economic engagement in Indonesia. For instance, they could support feasibility studies and help catalyze private financing for infrastructure projects. EDC could establish more “pull” facilities with Indonesian firms to encourage procurement of products and services from Canada. This kind of support would be instrumental in increasing Canada’s presence in Indonesia.

Finally, once the choices are made, Canadians must have consistent and determined political support to match what competitors receive from their governments in the Indonesian and other ASEAN markets. Local governments are often involved in the decision making and Indonesians instinctively

look for political signals as a vote of confidence in the firm or product on offer.

There is an interactive aspect to all the opportunities enumerated below. As recognized in the new Canadian government-funded CDN\$12.55 million Conference Board of Canada project to increase trade and investment opportunities for Indonesian SMEs and enhance Canada-Indonesia business ties, Canada’s commercial efforts are more likely to thrive if they are seen within a truly “two-way” relationship in which successes achieved by Canadians are accompanied by Indonesian (and ASEAN) progress in Canada and North America.

Among the many choices that could be made the focus in Indonesia, four areas stand out as offering substantial and long-lasting benefits to both Canadian companies and Indonesians:

- infrastructure development;
- agriculture and food security;
- services (especially financial services); and
- educational and technical training.

### Infrastructure

With its attendant high costs for companies and public services, Indonesia needs to remove critical bottlenecks in transportation, communications, power and other areas, including social infrastructure. Congestion at ports and on roads is a major constraint on Indonesia’s full and effective integration into global value chains. The World Economic Forum competitiveness index places Indonesia sixty-first out of 148 economies in the state of its infrastructure (World Economic Forum 2013). Infrastructure weaknesses have represented a substantial drag on Indonesia’s economic growth potential (World Bank 2014). In 2013, it was estimated that Indonesia would require US\$235 billion in infrastructure financing (KPMG 2014).

For ASEAN as a whole, the ADB has introduced special funds for infrastructure, as has the Indonesian government domestically. The new Chinese-led Asian Infrastructure Investment Bank (AIIB) will emerge as a new player next year — Canadian firms need Canada to be part of the AIIB.

Canada is well placed to respond to Indonesia’s infrastructure needs. Its products, technologies and expertise in the field of infrastructure are world-class, as demonstrated by their success in global markets, including the Asia-Pacific. Canada is also on the leading edge in developing models for infrastructure governance, financing and implementation, especially in the field of public-private partnerships (P3s). A positive step was taken in November 2015 when the Canadian government announced CDN\$14.25 million in funding for infrastructure development in Indonesia. In partnership with the World Bank, Canada will provide assistance in preparing the groundwork for P3 infrastructure projects, including the creation of a P3 centre in Indonesia.



## Drivers Shaping the Canada-Indonesia Bilateral Partnership

**The Canada “offer”:** many of Canada’s skills, outlooks, models, products and resources match Indonesia’s contemporary needs.

**Complementarities in economics and commerce,** but “underwhelming” performance, indicating:

- high potential to grow in agriculture/agri-food, infrastructure, services, and energy/resources;
- enhanced value chains integration are possible and essential; and
- investment and innovation linkages have potential to grow.

**Converging values and aspirations** in recent years, enabling:

- sharing of best practices on democratic governance, federalism and an effective public service;
- dialogues on economic reform, regulatory improvement, resource management, environment and sustainable development, and social inclusion; and
- exploration of how best to engage and mobilize youth, leaders and entrepreneurs of tomorrow.

**Geographic similarities:**

- both are “maritime nations” with long coastlines, major fisheries management, security and other

challenges relative to the exercise of sovereignty and control of the special economic zone;

- huge distances and difficult terrain, common infrastructure issues, social and political cohesion, and isolated communities; and
- resource-rich commodity producers.

**Shared responsibilities for global governance:**

- a surging Indonesia joins Canada as a major economy and power of influence; and
- membership in the G20.

**The people-to-people “enabler”** — a low base with much room for growth:

- less than 0.5 percent of international students in Canada are Indonesian;
- negligible Indonesian uptake in temporary foreign worker (now in remission) and working holiday programs;
- Indonesian “diaspora” in Canada is only about 40,000 persons, many second generation or older;
- very few Canadians, business people, teachers or students, residing long term in Indonesia; and
- growing but still modest levels of tourism, and no direct air links.

The need for private sector financing for Indonesia’s infrastructure<sup>4</sup> has drawn new interest in P3 models, which Canada has supported through the ADB. Canadian experiences with P3s, such as Infrastructure Ontario’s Alternate Financing and Procurement model, with its innovative contractor-arranged financing mechanisms, financial oversight and performance-based payments, provide models for Indonesian application given the expected volume of the project pipeline and the need for quality and delivery performance.

Clearly, “best practices” are essential and due diligence is in order on P3 arrangements. According to Canadian business representatives in Indonesia, P3 arrangements have, thus far, proven difficult to implement in practice. Canadian infrastructure equipment and services firms, some of which are active in Indonesia, caution that P3s can, at times, be costly for

contractors if the projects are not well designed. In a similar vein, it is unclear whether and in what measure the new Indonesia Infrastructure Guarantee Fund will help remove inhibitions for private sector involvement.

Canada has leading-edge capacity in rail, in particular urban transit systems, and in the aerospace sector, including aircraft, services, equipment, technology and training. Bombardier aircraft, which are particularly well suited to Indonesia’s archipelagic nature, have been sold to Garuda, Indonesia’s national airline, with potential for further growth. In urban transit, Canadian suppliers, such as Bombardier and its supply chain partners, have had significant involvement in Singapore, Malaysia and Thailand, as well as major projects in five other Asia-Pacific jurisdictions. While there are no active projects yet in Indonesia, Canadians are well placed to expand, given the needs associated with rapid urbanization.

<sup>4</sup> Brummit (2015) estimates that private sector sources will have to finance up to 70 percent of Indonesian infrastructure needs over the next decade.



Garuda takes delivery of a Bombardier aircraft in Mirabel, Quebec, 2015. Photo courtesy of Bombardier.

Whether in the transportation sector or more broadly in telecommunications (where BlackBerry maintains a strong presence) or power and energy development and transmission, Canadian equipment and service providers have important capabilities. They welcome local partners, are prepared to offer capacity-building assistance and are amenable to entertaining a variety of business arrangements, including licensing and, if workable, co-production.

Indonesia represents a potentially excellent base for Canada's infrastructure market development efforts throughout Southeast Asia. Competition is tough, however, and success will require not only a good strategy and timely intelligence, but, for larger projects, visible high-level backing by Canadian governments, at both the federal and provincial levels.

### Agriculture and Food Security

Canadians have an important stake in the agriculture and food sector in Indonesia. The country is a leading market, not only in the Asia-Pacific but worldwide, for Canadian agricultural and agri-food products and fertilizers. Saskatchewan alone, through its dominance in grains and potash, represents around 50 percent of total Canadian exports (Asia Pacific Foundation 2014). There is tremendous potential to grow existing lines of business and expand into new products, as well as in value-added technologies and related services areas.

According to the Food and Agriculture Organization of the United Nations, despite some progress, malnutrition continues to affect 8.7 percent of the Indonesian population (Organisation for Economic Co-operation and Development [OECD] 2015). While this is half the rate of a decade ago, the issue remains a concern in some regions of Indonesia. A

central objective for the Indonesian government is to enhance agricultural productivity in order to attain self-sufficiency in rice, maize and soybeans by 2017. However, the OECD (ibid.) warns that this goal may incur high costs and has domestic economic and natural disaster risks. Rural income growth in Indonesia is a matter of priority for local authorities — as are matters of food safety and reliability. Canada has been active in agri-business development through a CDN\$10 million smallholder-focused program involving capacity building in production, input supply and marketing through the International Finance Corporation (Global Affairs Canada 2014).

Thus, products and services tied to helping Indonesia improve its food security, including productivity improvements for Indonesian agriculture, aquaculture and the food chain, represent important opportunities for Canadians. Other opportunities lie in responding to changing diets as Indonesia's middle class expands — a phenomenon reflected in the growing market for Canadian pulses such as beans, lentils and peas (Indonesia Investments 2015).

Indonesia has now become the world's second-largest wheat importer (Rusmana and Listiyorini 2015), as wheat imports have risen by 63 percent over the past 10 years (Indonesia Investments 2015). Canadian cereal exports to Indonesia made up more than 20 percent of total exports to the country in 2014 (Asia Pacific Foundation 2015a), with room to grow given the rising demand for wheat.

As an example of smart marketing combined with a food security approach, Canada's position as a wheat supplier has been strengthened by the development of strong working relationships between the Canadian International Grains



## Energy, Mineral Resources and Infrastructure

A critical driver of the long-term prospects and viability of infrastructure projects, and Canadian opportunities therein, is the demand created by Indonesia's far-flung resource wealth and the equipment, software and human resources required for their successful development and logistic support. Canada has an historical role in these critical sectors in Indonesia. The clear Canadian identity of some players has been altered by ownership shifts in recent times: Husky Energy, Calgary-based but owned by a Hong Kong conglomerate; Talisman Energy, just taken over by Spanish firm Repsol; and, the largest of all, mining company Inco, now owned by Brazil-based Vale. Yet the Canadian engineering and project management expertise of these firms, as well as that of myriad other small operators/engineering consultancies in the energy exploration, power system development and maintenance, and environmental services sectors promise to keep the Canadian profile high and the message of Canadian innovation strong. As one example, Canadian Solar is building a plant in the Jakarta area, taking advantage of the new economics of solar panels for power in outlying islands relative to that of heavy coal-fired generators.

Institute (Cigi) and Indonesian flour millers through the latter's participation in Cigi's technical programs over the past five years. This has included introducing the millers to a variety of end uses and a better understanding of handling, quality and safety practices — as well as exposure to the optimization of wheat class blends and milling techniques. This is complemented by annual Cigi visits to Indonesia to brief importers on harvest outlooks and environmental conditions to help with purchase decisions as well as the provision of technical support. An Indonesia-based technical facility focused on Canadian wheat is under consideration.

Like Cigi, programs established by Cargill, a US company with extensive operations in Canada, are also responsive to Indonesian concerns, and directly involve agricultural communities. Both models are innovative and instructive in building confidence in the Canadian brand and creating a sense of common purpose around food security, while broadening commercial sales and technical cooperation in other areas of opportunity for Canadians.

Through Canpotex, the world's leading potash exporter, Canada is well established as a leader in providing potash supplies critical to improving the productivity of Indonesian agriculture. Fertilizers represent the single largest component in Canadian exports to Indonesia, at 22.8 percent of total export value in 2014 (ibid.). The potential for expansion exists notably in supplying the palm oil sector. While involving smaller volumes overall, potash has shown recent growth relative to nitrogen- and phosphate-based fertilizers.

Markets are also growing for Canada's advanced livestock genetic materials, and for professional services in such areas as water management, agricultural sciences, sustainable agricultural practices and "clean" technologies, and nutrition. Successful marketing will benefit from building strong personal and working relationships, and by innovative approaches to training, demonstration and collaborative research.

Finally, Canada should consider bringing a holistic approach to the sector, from the supply of agricultural products and fertilizers, to cooperation and the provision of technical advice and assistance in the development of Indonesian food production (including in aquaculture), to the building of the necessary infrastructure essential to food security — involving storage, ports, roads, rail and the cold chain — all areas in which Canada excels. This would require the engagement of both federal and provincial governments (such as that of Saskatchewan, given its major presence), possibly through the creation of a bilateral mechanism that would bring all the players on both sides to the table.

Some Indonesians feel that the level of growth and diversification of their agricultural and agri-food exports to Canada (led by rubber products, but also coffee, palm oil, cocoa, etc.) has been disappointing. This should be helped by the Canadian Conference Board project now under way, which could help



Canpotex supplies potash to Indonesia, where it is used as a fertilizer in palm oil operations. Photo courtesy of Canpotex.



Workers involved in palm oil operations in Indonesia. Photo courtesy of Canpotex.

Indonesia select, develop and market products that would be of interest to Canadians.

Indonesians also feel that the pace of overall cooperation, for instance on a Canada-Indonesia memorandum of understanding, has been slow and that technical barriers in the North American Free Trade Agreement area have been, at least in the past, a barrier to their products. In this regard, governments might consider, in the absence of prospects for a broader trade agreement, whether a sector-specific general lowering of trade barriers in the agricultural and food sector — a highly innovative move — would be a win-win to both sides.

Even with these issues, Indonesians agree that the potential is good in the agriculture and food sector, and favour both an expansion of trade and of technical cooperation, one area being genetically modified crops. Canada should jump at this opportunity. Indeed, any focus on productivity improvements in Indonesia will build momentum and potential for diversification and higher-value sales, as well as investment in both directions. It will also reinforce Canada's brand as an innovator and signal to Indonesians Canada's commitment to a genuinely two-way relationship on food security, one that is responsive to their priorities as well as Canada's.

In all scenarios, enhanced oversight of the sector (for example, by informal government/industry mechanisms), an upgrading of technical exchanges and improvements in problem solving or dispute resolution capacity would all be assets in deepening ties in the entire agriculture/food security area.

## Building a Greater Services Presence in Indonesia

Although the environment for foreign firms in its services sector is uncertain, as a quickly growing emerging economy Indonesia knows it needs to grow its services sector, including financial and professional services — both to support a more sophisticated economy and to meet the demands of a more affluent population and growing middle class. This offers excellent opportunities for savvy foreign services providers ready to take the plunge and invest in a long-term presence.

Canadian firms start from a solid base. Canadian companies are already recognized for their many years of excellence in insurance services, engineering, project management, and oil and gas/mining development in Indonesia. This reputation for excellence and sensitivity to the local market and needs should benefit new firms moving into these and other areas.

In addition, Indonesians would welcome new or enhanced Canadian involvement in emerging service areas such as environmental services, renewable energy and water management, and especially in the “innovative” sectors such as information technology (IT), and the related IT-driven “creative industries” of digital content, animation and culture. Canadian systems and models for start-ups are seen as attractive, and Waterloo's approach to technological innovation is cited as an outstanding example. Through targeted government support and the presence of a skilled workforce, the Ontario city has seen the birth of numerous successful technology firms.

The critical area of financial services already features demonstrated Canadian capability with two well-established and successful life insurance companies, Manulife Financial and Sun Life Financial. Both are well integrated into the Indonesian business community, and are leaders among Canadian businesses in the country. Indeed, together they are Canada's main corporate face in Indonesia. They offer a variety of progressive and more advanced products and services, diversification into real estate and private equity, and infrastructure financing, with opportunities for further innovation and growth. Canada's financial sector has the potential to play an even larger role, particularly if Canadian banks were to engage both in advancing Canada's economic interests and in responding to Indonesian priorities.

While there have been rough patches, a key Indonesian priority since the 1997-1998 Asian financial crisis has been to develop a world-class financial system with proper oversight, prudential capitalization and professional management — a system capable of managing risk and maintaining the confidence of domestic and international investors. Canada is seen as a leader in this field, in particular, following its performance during the 2008-2010 global financial crisis.

One opportunity would be to build on the Government of Canada's CDN\$15.5 million contribution to the University of Waterloo for its Risk Management, Economic Sustainability and Actuarial Science Development in Indonesia project,



which aims to help build Indonesian capacity and expertise in the financial, insurance and pension sectors. This initiative, which centres on a partnership among the private sector, educational institutions and Indonesian government agencies, exemplifies Canada's commitment to Indonesia.<sup>5</sup>

## Building the Next Generation of Leaders: Education and Training

Improvements in education and training in Indonesia are essential if productivity growth is to sustain government GDP growth targets. The situation is, by many accounts, dire. A World Bank survey found that 84 percent of employers in manufacturing had experienced difficulty in recruiting qualified staff for management positions and 69 percent reported problems in finding other skilled workers (World Bank 2010). Raoul Oberman et al. (2012) estimate that in order to maintain an annual GDP growth of five to six percent, demand for skilled workers will need to increase to almost 60 million people by 2030, but that Indonesia may face a shortfall of at least nine million workers educated to secondary and tertiary levels.

Against this backdrop, Canada should be striving for a substantially better performance in attracting Indonesian students to study in Canada — and in showcasing its human resource development “systems and models.”

Indonesians do not typically go abroad for study in the same numbers as others in the Asia-Pacific region. The number of

Indonesian students in Canada, however, is especially low. At last count (in 2013), there were only slightly over 1,100 Indonesians enrolled in long-term university or other tertiary study programs in Canada — last among major source nations of the Asia-Pacific, and much lower than other ASEAN countries such as the Philippines, Thailand and Malaysia (Government of Canada 2015). In comparison, China has 95,000 Indonesian students, India 35,000 and Korea 19,000.

Some additional funds have been made available by Indonesia's education ministry for outbound students. Through effective promotion and advocacy, Canada should seek to establish itself as a destination of choice. While education is a priority sector for Canada under the Global Markets Action Plan, Indonesia is not at present eligible for resources under Canada's International Education Strategy, thereby reducing promotional resources available beyond in-house efforts made by the Embassy of Canada in Jakarta. This restriction must be changed.

In order to thrive, education ties, whether in the form of student flow or other exchanges and cooperation, will benefit from institutional links that build “Canada awareness” and, therefore, over time, deliver strategic benefits applicable to all sectors. Targeted partnerships need to be pursued; these must respond to needs in specific areas where skills are lacking, such as entrepreneurship mentoring, training in the applied sciences and related technical disciplines or for instructor training.

Such partnerships could be the result of an initial high-profile mission to Indonesia led by one or more prominent Canadian figures, and under the auspices of such bodies as Universities Canada or Colleges and Institutes of Canada or, better yet, both, given the range of potential. There is also room in Indonesia for an expansion of joint curriculum/degree programs and e-campus links such as those currently involving post-secondary institutions in Alberta.<sup>6</sup> Co-op placements or post-graduate internship arrangements would enhance the experience and therefore the incentives of a study-in-Canada option for young Indonesians, as well as contribute to mutual awareness and longer-term business and people-to-people linkages.

Fostering entrepreneurship and trade development capacity are an especially attractive “match.” Canada and Indonesia are both participants in the Global Entrepreneurship Monitoring program measuring the development and behaviours of “early stage” entrepreneurs, in particular their degree of innovation. Simon Fraser University has already been involved in this survey with an Indonesian counterpart, Universitas Katolik Parahyangan. There should certainly be scope for further partnering in this area.

<sup>5</sup> For more information on this project, visit: [www.international.gc.ca/media/dev/news-communicues/2015/05/21a\\_bg.aspx?lang=eng](http://www.international.gc.ca/media/dev/news-communicues/2015/05/21a_bg.aspx?lang=eng).



Manulife Indonesia's head office is located in Sampoerna Strategic Square on Jalan Jenderal Sudirman, Jakarta's main avenue and business district. Photo courtesy of Manulife.

<sup>6</sup> eCampusAlberta ([www.ecampusalberta.ca](http://www.ecampusalberta.ca)) involves a consortium of 26 Alberta post-secondary institutions offering some 900 online courses.

As already noted, a new project sponsored by the Government of Canada and undertaken by the Conference Board of Canada is focusing on how to raise Indonesian companies' performance in Canadian markets through enhanced market intelligence, targeted marketing efforts and exporter preparation — with the focus on promoting success by Indonesian SMEs.

The education services area offers opportunities to expose Indonesians to Canadian excellence in business education. Again targeted at capacity building, initiatives would most usefully address specific key skill deficits. Of particular focus may be areas such as advancing industrial and agri-business restructuring, and in introducing or adapting novel systems and strategies to achieve such objectives within Indonesia.

Similarly, Canadian approaches to education-labour market planning alignment may be instructive. As with the University of Waterloo project in the financial sector noted above, this is an area Canada might usefully leverage and build upon. For example, it may bring forward work the Conference Board of Canada has done on education system and labour force needs alignment in Canada, as well as the partnerships being developed through Canada's own CDN\$5 million Skills for Employment in Indonesia project, executed through the ADB. The latter is designed to strengthen technical/vocational skills training while reinforcing linkages between polytechnic institutes and private industry in selected sectors of highest needs.

Building on these partnerships in secondary and tertiary education, Canada should strive to position itself as a first-rate partner for technical training, in particular, in those areas where it possesses recognized strengths, and where there are strong business prospects, including transportation and aviation (for example, management, standards and regulations, maintenance technicians and pilot training) and agriculture. With support from the Canadian government, initiatives related to technical training and capacity building can help enhance Canada's brand in Indonesia and lead to opportunities for increased business and economic ties in the future.

### Opportunity: Sharing Experience in Governance Innovation – With Mutual Value

Canada and Indonesia can learn from each other and apply these insights to meeting their respective challenges. Canada's Development Cooperation programs have already evolved in recent years with CIDA (now part of the Department of Foreign Affairs, Trade and Development) and the IDRC focusing on issues related to governance, investment climate, enabling conditions and institutional development.

With a convergence of values and interests, the governance agenda has further potential to add depth and strength to Canada-Indonesia relations. This agenda signals the longer-term nature of Canada's commitment in Indonesia and serves to demonstrate that its principles are aligned with the aspirations of the Indonesian people in building an open, democratic and prosperous nation. It shows that Canada's interests extend beyond the pursuit of immediate trade and investment transactions (while also contributing to making those stronger), and are in tandem with a more open and accessible economy in which youth and other segments of society can participate.

Important examples in this vein include current programs to promote entrepreneurship among youth and SMEs. But it has extended beyond commerce to include themes such as open government and transparency, accountability, social justice, elections processes and media freedom, where many deeply committed Indonesian organizations are active.

A combination of Canada's innovative IT skills and technologies, on one hand, and experience in inclusive governance, on the other, could be brought into play, given Indonesian organizations' remarkable use of digital tools along with grassroots organizational skills, such as crowd-sourcing to build engagement and awareness. While digital divides persist in Indonesia, the programs and techniques being deployed are comparable and in some ways even more advanced than any comparable Canadian work — reaching outlying areas and marginalized communities — and where Canada could support these leading-edge tools in practice and also learn lessons from their application.

A number of specific areas, including those concerned with democracy, open government, social justice, youth empowerment and entrepreneurship, can provide the basis of future collaborative work, expanding on the current excellent programming. It is likely that engagement at the organization-to-organization level will be necessary before specific opportunities and partners for collaborative work can be identified, feasibility and priority can be established and resources explored.

A vibrant and continuously growing civil society has emerged in Indonesia during the last decade. This includes various think tanks and academic and non-government organizations focusing on the strengthening of democratic governance at both the national and subnational levels. Indonesia's continued progress as a major economy and important international player is naturally tied to its capacity to maintain and solidify its progress in setting up stable, well-functioning democratic institutions and inclusive governance systems that translate into improved well-being for its citizens. Good governance and the resulting stability and predictability are also essential for the successful and growing Canadian economic presence in Indonesia. Both Canada and Indonesia



## Topics for Possible Further Collaboration on Governance Innovation

- **Consolidating democracy and the rule of law:** Some Canadian models of restorative justice — for example, on residential schools — and pluralism may be instructive; conversely, Indonesian civil society models of citizen engagement may be instructive for Canadian NGOs and journalists.
- **Promoting transparency:** Canadian experience with access to information and privacy, and with sharing approaches on accountability, what has worked well, not so well, and so on.
- **Building inclusive societies,** including gender, youth and ethnic/religious minorities (not only in terms of political rights but also in relation to access to key services such as food quality and safety, education and training opportunities, and health care).
- **Engaging citizens:** Canadian and Indonesian civil society organizations could share experiences and collaborate in developing and testing innovative approaches and methodologies on engaging citizens, in particular, disadvantaged and marginalized groups, with institutions of governance.
- **Managing decentralization:** Canadian experience may be helpful in financing models or in assuring quality and service standards, while accommodating regional differences; Indonesia's experience may be instructive as well. With Indonesian decentralization reforms outpacing the capacity of institutions of governance, Canada's experience at various levels of subnational governance could be of high value during a critical period of institution building and reform in Indonesia.
- **Fostering smart regulation** in government procurement or resource development, infrastructure financing, investment rules and procedures, transparency of financial transactions and risk management practices in such areas as consumer safety and environmental protection.
- **Building a stronger public service:** Exchanges and sharing of best practices between Ottawa and Jakarta, led by the heads of each public service.
- **Business-to-business:** Regular meetings between Canadian and Indonesian associations to share experience and build agendas, at once commerce-friendly and socially responsible.

would benefit immensely from an exchange of experience related to governance issues, including, but not limited to, minority accommodation, religious freedoms and tolerance, decentralization, anti-corruption, stakeholder engagement in the legislative and regulatory process, and so on. Canada has a lot to contribute — as well as the right reputation in the eyes of Indonesians — in supporting Indonesia's ambitious reform agenda.

## Opportunity: Collaboration on Regional Security and Global Affairs

The case for establishing Canada as a partner of value for Indonesia and other ASEAN partners must be made. While ASEAN, as a regional organization, is not as integrated as the European Union, it is of significant political importance to Indonesia, which constitutes the region's dominant economy. Canada's decision to appoint a full-time dedicated ambassador to ASEAN in Jakarta is a positive step. What is more important is how this will be followed through, specifically by the recognition that a strong engagement with Indonesia is an important anchor for a broader Canada-ASEAN partnership.

At the nexus of security, trade and other preoccupations, there is one cluster of opportunities worthy of further exploration and follow-up. It resides in the fact that Canada and Indonesia are both maritime nations. Including its Arctic waters, Canada has 243,000 km of coastline (the longest of any country) and seven million km<sup>2</sup> of "ocean estate"; Indonesia is a predominantly archipelagic nation at the confluence of the Pacific and Indian Oceans with the second-longest coastline (over 90,000 km). Both countries are heavily dependent on ports and sea lanes for their prosperity and on the effective management of fisheries and other marine resources. In contrast to North American trade, which is conducted mostly overland, and the more investment-based character of trans-Atlantic business, Pacific commerce is very much "seaborne." This factor and the accompanying security vulnerabilities — along with illicit drugs, human smuggling and natural disasters — are areas of common interest. For both nations, "domain awareness" is a constant preoccupation and a challenge, with many organizational and operational dimensions.

Since his election, Indonesian President Jokowi has emphasized his nation's maritime character and expressed the will to transform Indonesia into a "global maritime nexus." This provides a unique opportunity for the two countries to cooperate in a number of areas — military and non-military. Canada's navy plays a multi-faceted role in ensuring maritime security, and various players at home are involved with the Department of National Defence in this effort, from law enforcement to border integrity to environmental protection.

There are several options for enhanced collaboration.

On regional security, the current situation in East Asia, especially as it relates to the economic and geopolitical consequences of China's rise, remains topical and of concern within the region and, increasingly, beyond. Given the uncertainty surrounding freedom of navigation in the South China Sea and the possible impact on maritime trade in the region, states engaged in trade with ASEAN, including Canada, have a direct stake in regional security. With extensive coastlines and archipelagic geography a shared reality, Canada's approach to maritime security may offer models for Indonesia and other ASEAN nations. The multi-faceted roles and concepts of domain awareness as well as the diversity of security issues in today's world may be especially relevant.

Inasmuch as informal dialogues can continue to be helpful, more direct collaboration between security authorities is now timely, enhanced by wider stakeholder engagement and expert contributions. Canada's recent work in the Asia-Pacific region including the Western Pacific Maritime Symposium, and the exchanges with regional navies on the Code for Unplanned Encounters at Sea are steps in the right direction, but more proactive, ambitious steps, whether in the form of dialogues or operational engagements, are possible.

In terms of regional security governance, it is clear that the region has moved beyond the earlier workshop phase when the Indonesia-Canada partnership was so welcome. Some of the issues that had been looked at have now been managed and even resolved among ASEAN states. Moreover, confidence-building, incident prevention and "joint development" measures are being explored more widely, if tentatively.

On the other hand, the more serious questions raised by China's ascendancy and China-US competition have evolved to a difficult place. Neither formal international arbitration, at one end of the spectrum, nor track two models, at the other, are useful. In this vacuum, the trust deficit has grown and the risk has become more immediate and tangible. With nationalism rising, less ambitious "building block" approaches may be more feasible. These may be classed as conflict avoidance mechanisms or protocols, augmented, perhaps, by elements of functional cooperation, such as fisheries management.

Canada has extensive experience in fisheries management and has faced many challenges from foreign overfishing and the management of fish stocks. President Jokowi is anxious to assert effective jurisdiction in the face of widespread illegal foreign fishing. Canada and Indonesia could work together on this issue, both to help Indonesia better manage fisheries in its waters and to reduce tension through jointly organized track 1.5 workshops and meetings on fisheries management in the South China Sea.

On the regional economic front, while the Indonesian government chose not participate in the original round of Trans-Pacific Partnership (TPP) negotiations, President Jokowi announced during his visit to Washington in late October 2015 that his country would be seeking to join the trade agreement once it is in place. In part due to its higher standards and ambitious liberalization agenda, Indonesia has tended to see the TPP's terms as not suitable to Indonesia's current level of development. This concern has clearly evolved (as did Canada's not so long ago), as the costs of being outside the trade deal rise and become more apparent.



Unloading cargo at the IPC Port of Tanjung Priok, Jakarta. Photo courtesy of Martin Alexius, Flickr.



## The Economic-Security Nexus: The Win-Win of Canada and Indonesia Cooperation

If Canada is to convince Indonesia and other ASEAN states that it has truly recommitted to its Asia-Pacific identity, there is no better way than to join with these nations in helping manage the complex regional realities in the interface between peace and security on one hand, and economic growth and prosperity on the other.

Sitting in a peaceful and stable North America, many Canadians may need convincing that this nexus even exists. They seem to believe that they can enjoy the full economic benefits of Asia's rise and achieve Canada's ambitious economic goals without making any contribution to regional security or to the performance of regional governance mechanisms — including through regular attendance at key meetings. This is simply not the case, as Asian stakeholders, including those in Indonesia, tell us time and again. Working together at this nexus between security and economics, Canada and Indonesia can develop a new win-win partnership model.

For Canada, if it can develop an effective strategic partnership with Indonesia, it demonstrates that Canada understands the complexities and challenges found in the region and is seriously engaged and committed to helping the region contend with them. This would, at the same time, help Canada gain the support of one of Asia's giants for a regular seat at the region's governance table.

For Indonesia (and ASEAN), the payback comes through Canadians bringing their skills, experience, resources and standing to bear in helping Southeast Asia effectively manage the interconnections between the tensions that undermine peace and security and the equally complex economic, trade and resource competition issues, which are themselves sources of tension.

This cooperation can be captured in several ways:

- exploring and managing the “nexus” in an area both countries know well — the maritime setting;
- working to develop and institute peaceful dispute settlement and conflict avoidance measures relevant to the region, in particular in the maritime space;
- establishing a track 1.5 process to help bring about better cooperation on fisheries management in the South China Sea, thereby reducing current tensions in the area;
- leading efforts to understand better, in the regional context, the interaction of economic fortunes and security in today's world, such as the vulnerabilities of transportation and communications infrastructure, and the use of economic levers in times of tension;
- better understanding of and countering the threats posed by cyber attacks and criminal activity on the Internet (and remembering that 95 percent of Internet traffic runs under the sea);
- dealing with the vulnerabilities posed by the use of social media by criminals and terrorist groups; and
- timely information sharing and joint planning.

Indonesia and Canada can work together, along with other ASEAN or regional players such as Australia and New Zealand, to bring innovative processes, with rules and enforcement where feasible and appropriate, to the management of present and emerging issues, and to promote dispute resolution mechanisms that work. This would help achieve the stability and predictability required for economic growth and social inclusion — and add further incentives for peaceful behaviour.

Since it may still be some time before the TPP is ratified by the United States and all other original 12 participants, Canada could begin to play a bridging role between TPP partners and Indonesia now. One less conventional approach might be to see if Indonesia's preference for the use of more gradual, less codified Asian approaches to trade liberalization could be adapted bilaterally to Canadian-Indonesia trade, as a transitional step to something more ambitious. Canada might try to alter its own preferred approaches and engage Indonesia through the APEC-based Free Trade Area of Asia-Pacific — of which, as a signatory to the 1994 Bogor Declaration, it is nominally a part of — or the Regional Comprehensive Economic Partnership

(RCEP) — which it is not a part of but should pursue, perhaps with Indonesian support.

In terms of global collaboration, Canada has to move past its Group of Seven comfort zone, and fully embrace the G20 mindset by reaching out to the next group of leading nations. Despite the skepticism toward Canada, there are strong indications that Indonesians would welcome an upgrade in dialogues, not only on regional issues, but international economic and political/security matters as well. Sustained engagement on these fronts would be another important indication that Canada is seriously committed to the relationship with Indonesia and to the Asia-Pacific region.

The G20 forum provides excellent opportunities, which seem seldom used to date, for high-level political dialogue with Indonesia on global trade and economic issues. A reinforced ministerial forum would do likewise. Canada might also commission special-purpose expert workshops, perhaps on a track two or tripartite basis, with government representatives attending *ex officio*. At the very least, such dialogues would provide material in developing Canada's bilateral trade and economic policy agenda, and offer opportunities for leadership on regional matters, extendable beyond and through Indonesia to engage ASEAN as a whole.

## Challenges to Re-engagement Can Be Significant

Despite the “drivers” working to push Canada and Indonesia together, and the major opportunities for making a quantum step forward in the relationship, there remain certain obstacles and challenges to overcome. Acknowledging those factors, and finding ways to deal with them, will be critical to success.

In commerce, there are, as elsewhere in the Asia-Pacific, issues of language, ways of doing business, cross-cultural capacity and distance, which impose costs and risks for projects on long gestation. There is uncertainty regarding the availability of local partners and talent, the environment and rules for foreign investment, and regulatory approval processes. While Indonesia's financial system is improving and capital can be raised, the rather unfortunate and inexplicable absence of Canadian banks on the ground in Indonesia is a weakness.

Inasmuch as it can be asked why a focus on Indonesia is needed for Canada, the reverse is also true. Indonesians can equally wonder, “why Canada?” Not unlike other Asia-Pacific markets, the competition in Indonesia and other ASEAN nations is tough, complicated by the reality that Canada's “brand” and added value are generally not well known or self-evident to Indonesians.

In the security field, Canada is also not an obvious partner. Canada and Indonesia's similarities as maritime states, and the nexus between commerce/prosperity and security where both nations have big stakes, are not widely or immediately self-evident — in either country. The case for Canada's place at the table must be reproven and refreshed. Canada's capacity to play a bridging role as middle or “constructive power” may have become less relevant to Southeast Asian nations that have grown more confident — if not always more successful — in dealing with major powers on controversial and contentious issues.

Moreover, Canada is perceived by Indonesian officials as having grown weary of working on South China Sea questions in particular, and (it is surmised) as a nation that has shifted strategically away from ASEAN and the Asia-Pacific. This perception persists now, at the very time regional security issues

are becoming more salient. The perception may be exaggerated, but its effects are tellingly evident in Canada's inability to get an invitation to join either the East Asian Summit or the ADMM+ grouping. Whether the analogy is justified or not, Canada is indeed the “returning boyfriend” who must now work harder than ever to re-establish its commitment, credentials and relevance on a range of regional political, security and economic issues.

There are also challenges to building momentum on people-to-people ties. Low mutual awareness is both a constant and a constraint in a variety of fields of potential. Unlike other Asia-Pacific nations, there is a very limited Indonesian diaspora in Canada, and a very limited circle of returning Indonesian students on which to build people-to-people ties and long-term cross-cultural skills. This may, therefore, make Indonesia less interesting to Canadian political parties seeking votes at local levels. It also leaves business communities in both countries less well endowed with human resource assets able to successfully work the Canada-Indonesia interface, assets that Canada has with many other Asian nations.

In the realm of commercial policy, Canada is not seen as a partner of first choice for closer economic integration, either through an acceleration of bilateral trade and investment arrangements or through regional arrangements, whether the RCEP or the TPP. As noted, Indonesians tend to regard the TPP as unsuited to its situation. Canada sees the RCEP as not ambitious enough. Similar considerations make a bilateral Canada-Indonesia free trade agreement (FTA) an unlikely near-term option, at least in the models to which we have become accustomed in North America and Europe. Although there is interest, and there have been several rounds of talks on a FIPA, as reflected in the 2014 Plan of Action, similar Indonesian inhibitions stand in the way of Indonesia accepting the deeper integration and higher standards that Canada expects.

In sum, if Canada is to move ahead in this area, more innovative approaches will be required, for example, moving away from formal agreements toward more transitional undertakings, with agendas calibrated to Indonesian/ASEAN realities and “styles.” Such an approach is likely to achieve more progress on issues of market access and regulatory environment, and increase business confidence.

There are, of course, other barriers and complications facing Canadian business. For instance, in some specific areas such as major transportation infrastructure projects, some options available in China or other nations, such as co-production or joint development approaches, are not available to Canada's providers in Indonesia due to a more limited industrial ecosystem and constraints in human resources supply and training levels. Moreover, Canadian business representatives caution that any investment projects, such as for resource development that may involve land acquisition, may face costly risks of delay. In manufactured products, such as IT and telecommunications



equipment, there is a renewed bias toward suppliers that have some local sourcing for components.

Finally, while Canada's contributions on governance innovation have been broadly welcomed, there will always be understandable sensitivities due to the perceived sense of intrusion into domestic matters. This is particularly the case in one area where Indonesia faces an especially difficult challenge, which is acknowledged internally at the highest levels of government: the need to curb corruption and increase transparency in the delivery of government services.

The reality remains that one size does not easily or necessarily fit all. Yet, from helping Indonesians build the stronger democratic institutions and processes they desire, to tackling the deeply engrained problem of corruption through transparency and open government initiatives, Canada's collaborative approaches appear to be welcomed both in official circles and within civil society.

## Conclusions

### What Is Key and How Do We Act Going Forward?

Looking to the future, “business as usual” is always an option, as there have been worthy improvements and achievements of late. However, if Canada is to position itself effectively to realize the immense potential that exists in closer ties with Indonesia and Southeast Asia, more transformative and innovative approaches are needed.

*One overarching conclusion is clear: an integrated and interdisciplinary approach, pursued in an innovative, pragmatic and results-oriented manner, would serve Canada best.*

A new Canada-Indonesia partnership can be neither successful nor sustainable based solely on a strong trade and investment focus combined with a continued emphasis on development cooperation, as important as these elements are.

Considerations of shared responsibility between partners for issues of governance, regional security and quality of life must also be part of the package, and must be managed on a whole-of-relationship basis, both strategically and operationally (not as detached pillars). Much greater engagement by Canada's political leadership is needed to underpin these elements. Finally, Canada cannot rely solely on traditional instruments and tool boxes and expect more decisive or transformative results.

This report's key conclusions, as presented below, involve an identification of what priorities are most pressing and/or promising, and how best these priorities should be moved forward and presented, whether in terms of policy agendas or collaborative ventures. While more specific recommendations

and actions will be advanced in the final section, these are the principal areas of engagement opportunity.

In the field of **security cooperation**, it is not feasible to “restore” the Canada-Indonesia-led South China Sea workshop process, at least not in the original format. What is clear is that Canada and Indonesia share experiences as maritime nations, with attendant challenges in archipelago security and resource management. It is equally clear that the region still suffers from institutional weaknesses in addressing actual or potential areas of conflict.

As a precursor of more ambitious regional governance solutions, models of functional cooperation can usefully be explored through track two or track 1.5 initiatives jointly organized by Canada and Indonesia. This may be done most promisingly in maritime matters, starting with fisheries management — where Indonesian interest is already evident and a Canada-Indonesia workshop could be quickly organized, and include other regional experts. If there is a need, functional cooperation models might be explored as well as on topics such as marine environment protection, disaster response, migration control or coast guard best practices.

Given Canada's checkered track record, it needs to send a strong message that it is “back” — ready to put time, effort and money into contributing to regional security. This has to include both political/strategic and military-to-military components. The South China Sea must be a key component of the dialogue.

Canada has to make clear that Indonesian and ASEAN security is directly relevant to Canada's security — not just because it wants to do business in the region, but because it is a member of the Asia-Pacific “community.”



Downtown Jakarta. Photo courtesy of Mark Pegrum, Flickr.

With regard to **economic and business relations**, there is significant potential to expand ties to the mutual benefit of both our societies, in particular in the following priority areas:

- **agriculture/food security** — responsive not only to the excellent market trends and Canadian capacities, but to Indonesian needs and circumstances;
- **infrastructure development** — building on Canadian strengths and experience in transportation, communications, energy and power systems, maritime infrastructure and the environment, and adopting Canadian 3P models in the management and financing of projects;
- the **service sector** — notably in financial services, building on the already strong presence in the market, adapting Canadian competencies in meeting the needs of the rising middle classes in managing wealth and helping mobilize capital for key projects; and
- **education/training** — particularly in helping Indonesia meet the demand for a more skilled and technically capable labour force, as well as “internationalized” university graduates, creating a new generation of leaders with Canadian experiences and connections (as well as Canadian leaders with experience in Indonesia).

First, however, Canadians must shake off the “Indonesia is too far away” argument, and invest time and effort to study this market, identify key opportunities and establish relationships with possible partners — even if immediate prospects are limited. For those already doing business or looking for a big contract, setting up shop in Jakarta is essential — nothing rankles the Indonesians more than their country being covered from another base in the region such as Singapore.

“Value chain” business strategies are important, such as increasing Indonesian value-added in a product through local assembly or in engaging Indonesian inputs to a product, even if it is to be assembled elsewhere in Asia, or via introducing business-to-business innovation linkages. One thing is certain: Indonesia offers a huge domestic market — and a possible base for exports to other ASEAN countries. Those who have been there longest, have established networks and explore innovative models have the best chance of success.

Second, Canada’s governments and businesses need to make it clear that they are not just self-interested traders, but also that they are committed to contributing to Indonesia’s ambitious economic goals of building a prosperous, resilient, modern state — one of the future powerhouses in the global economy. Through trade, investment and other business arrangements — amplified by specific initiatives encompassing both policy development (government) and technical cooperation (businesses and institutions) — many of Canada’s strengths as a nation can be put to good use through engagement in helping Indonesia achieve some of its key goals: agricultural productivity and food security; infrastructure building; services

sector modernization; and enhancement of the labour force. Canada can also provide value on emerging issues in the areas of energy and resource development, maritime industries and fisheries management, and sustainable growth strategies. Canada’s leading-edge “clean technologies” can be brought into play in all key sectors.

Canada has already been active in assisting Indonesia’s efforts to build effective, inclusive, responsible and rule-of-law-based **governance systems** — at local, central and even regional and international levels. This should continue and be expanded. Well-designed governance cooperation helps achieve our shared objectives in both security and economic areas, while contributing to a productive and creatively deepened engagement with Indonesians.

Such engagement serves as a positive enabling factor for success in other parts of the relationship, and responds to Indonesian needs and requests for partnerships.

Key areas of activities should include:

- helping all branches of the Indonesian government build well-managed, transparent and inclusive legislative and regulatory systems, battle corruption, and build mutual confidence and trust;
- sustaining Indonesia’s remarkable progress in democratic governance and respect for human rights, creating effective local governance and a capable public service;
- building the capacity of Indonesia’s vibrant civil society to play a constructive role in the strengthening of democratic governance at both the national and subnational levels; and
- fostering an entrepreneurial business environment, especially among youth, and resilient world-class financial and economic institutions.

Canada should work with the Indonesians in designing the most beneficial strategies, programs and vehicles, designed for Indonesian circumstances, taking the outstanding work of its development cooperation program to a new level. It requires sensitivity on Canada’s part to the challenges Indonesians face, and to the evolving socio-political context.

This governance work (involving not just institutions of governance, but pulling in businesses, educational institutions and civil society groups) could include special topic exchanges, such as on socially responsible legislative processes and regulatory models pertaining to infrastructure financing, resource development and investment. Innovative technology and business education systems would engage the future young leaders as Indonesia strengthens its entrepreneurship capacity, especially within SMEs and knowledge-sector start-ups, as well as finding creative means to help consolidate progress in building democracy through citizen engagement, enhanced voting practices, open government and greater social inclusion.



Steps worthy of consideration in working together on matters of governance may include:

- bringing in experienced players such as Canada's Parliamentary Centre and Indonesia's Habibie Center, and mechanisms such as the Global Entrepreneurship Monitor network so as to expand the potential for solutions that people need and support, and that governments can endorse;
- examining innovative grassroots approaches and tools for citizen and stakeholder engagement in the political process in both countries, collaborating in their implementation and drawing mutually beneficial lessons; and
- offering support to wide networks of Indonesian civil society players to build their sustainable long-term capacity to play constructive roles in the strengthening of democratic governance.

There is **a serious deficit in mutual awareness between Canadians and Indonesians**. This starts with basic knowledge of each other's countries. Both countries lack an appreciation of the advantages they can offer each other — and the potential they have in working together. It is not clear why this is the case (apart from the great distance between the countries), but it is essential they work to reverse this deficit of knowledge and awareness. Otherwise, obvious opportunities will continue to be missed on issues that matter to both, and they will not have the broader base of interest and participation needed to achieve the transformational breakthrough.

Building awareness must involve stronger efforts to showcase Canada and raise the attention of today's opinion leaders in Indonesia. Indonesia must do the same in Canada. To be transformational as well as strategic, the major effort should focus on young people and consciously target potential leaders of tomorrow. Over 40 percent of the Indonesian population is under 25. Indonesia's young people are among the most digitally "savvy" and socially networked youth in the world, offering a particularly promising avenue for awareness building. A major effort now to expand educational ties and technical training, supported by targeted institutional partnerships, can vastly increase experiences in each other's countries while, at the same time, offering Indonesia a "Canada option" in matching human capital to evolving labour force needs in a competitive global economy.

Indonesia — indeed all Southeast Asian nations — **should be a priority under Canada's international education strategy**, as Japan, Korea and China are now. This is a serious shortcoming.



The Selamat Datang Monument located in the Bundaran Hotel Indonesia roundabout in central Jakarta. Photo courtesy of Fen Osler Hampson.

## Recommendations

### Where Do We Go from Here? Business as Usual or "Out of the Box"?

Canada has a choice to make: either continue to deal with Indonesia as one of a number of Canada's "second-tier relationships" in the Asia-Pacific, with episodic incremental activity and a responsive approach to developments, or to move decisively and deliberately to place Indonesia among its first tier of priority countries, both regionally and globally.

Canada's future prosperity depends on it tapping into the growth being generated by Indonesia and other emerging economies that will be the globe's major economic powerhouses in 2030. Indonesia is also a route into the ASEAN market. Canada's continued ability to exert international influence and promote Canadian interests across a range of important areas — from security and economics to the institutions, rules and practice of international governance — will increasingly depend on close ties with countries such as Indonesia that are joining it at the world's top decision-making tables, such as the G20.

What follows, under six broad headings and themes, are 20 specific recommendations, including several "out of the box" or "big ideas" to enhance Canada-Indonesia ties.

## Enhancing Diplomatic Ties

- Officially upgrade the relationship with Indonesia to the tier-one level of **strategic partnership** by 2020.
- Agree to at least one **exchange of head of government visits over the next five years**, including inviting the president of Indonesia, Joko Widodo, to be one of the selected leaders to visit Canada during its 150th celebrations in 2017.
- **Transform the Ministerial Consultative Forum set up at foreign minister level under the 2014 Plan of Action into a Multi-ministerial Dialogue, meeting annually by video conference** and engaging foreign, trade and defence ministers, with pre-agreed themes that could include agriculture and energy, among others.
- Make Indonesia an early destination for a **governor general's visit**, accompanied by a major "EduCanada" delegation (see below).
- At the provincial level, those **provinces with the greatest commercial interests in Indonesia — namely Saskatchewan, Alberta and British Columbia — should have their own "Indonesia strategies"** broadened to include non-commercial elements (education, technical exchanges, twinning arrangements and culture) and driven by regularly scheduled premier and ministerial business missions.

## Security Cooperation

- Initiate a **deepened dialogue on security issues (both regional and global) through establishment of regular high-level political-military talks at 12–18 month intervals**.
- Ensure enhanced **defence diplomacy and regular military-to-military consultations and enhanced cooperation, visits, exchanges, joint exercises, training, and so on, with the emphasis on navy-to-navy**.

## The Security/Economic "Nexus"

- Given interest from Indonesia, establish a track 1.5 process involving **workshops on fisheries management issues in the South China Sea co-chaired by Indonesia and Canada**. It would be open to ASEAN, China and other interested parties, with a target date of end-2016.
- Hold a major **Canada and Indonesia as Maritime Nations Conference in 2017** that would bring in key government, business and other non-governmental players from both sides to explore a range of topics where common challenges are faced by both countries: sovereignty and security matters; migration and people smuggling; building sustainable infrastructure in the maritime space;

offshore energy and mining; fisheries management and environmental issues. It could involve other ASEAN countries.

Organizers could choose one or two areas in addition to fisheries management for ongoing engagement through an intergovernmental or track 1.5 dialogue. Such "cross-over" matters could include managing the interface between economic activity and the marine environment, or building sustainable maritime infrastructure.

## Building the Economic Relationship

- In consultation with stakeholder groups (and pending Indonesia's formal move to negotiate access to the TPP, which could take some time) launch an **innovative trade and investment policy agenda with Indonesia**, which would take a less formal route than an FTA negotiation, with the aim to open up and facilitate trade in both directions, ease the conditions for investment, and maximize benefits and limit the risk of our shared involvement in regional and global value chains. This would simultaneously serve as a bridging mechanism to help Indonesia transition to the more ambitious TPP framework, which Canada would continue to advocate and support.

Canada and Indonesia should establish a **Joint Economic and Trade Council** chaired by central governments, but involving provincial officials, non-government participants and observers.

The process undertaken should include:

- discussions on trade facilitation issues, market access, regulatory reforms affecting trade in goods and services, intellectual property and dispute settlement; and
- expert workshops and joint research initiatives aimed at helping governments better understand the issues in play, exposing emerging problems and looking for model solutions, drawing on talent in and out of government.

The eventual objective would be to define and develop the possible elements of a comprehensive, economic agreement, complementary to eventual Indonesian TPP membership if that comes to pass.

- **Establish sectoral forums** in the two areas highlighted in this report as having the greatest potential for growth in the countries' business relationship: **agriculture and food security**; and **infrastructure**. Rather than conventional, officials-based consultations, the format should involve business representatives, stakeholders and experts, and cover policy issues, information exchange and technical cooperation initiatives.

- Initiate a **Canada-Indonesia Innovation Agenda**, Canada's first such arrangement with an ASEAN country, focused on **scientific and technical cooperation** in such areas as agricultural/food security, life sciences, energy, "clean technologies" across the board, digital and creative industry technologies, and other areas deemed important by the Canadian and Indonesian sides. It would feature expert workshops, technical collaborations and joint research initiatives conducted electronically, where possible.
- **Companies that are serious about doing business in Indonesia should open offices in Jakarta**, as increasing numbers of other foreign firms are doing. Being present in this changing and relationship-centric environment increases the chances of success and avoids the negative impressions often created by firms that choose to cover Indonesia from Singapore or other ASEAN cities.
- The Canadian Council of Chief Executives or the Canadian Chamber of Commerce should consider partnering with a counterpart Indonesian organization to **establish a Canada-Indonesia Bilateral Business Dialogue**. Starting small with get-togethers on the margins of other events (such as the annual World Economic Forum in Davos, Asia-Pacific conferences or APEC CEO summits), it would enhance direct business-to-business engagements, foster innovative business initiatives and networks between Canada and Indonesia, and build longer-term personal ties among corporate leaders. It could also provide a focus for bringing business advice to governments on issues of importance, including market access, investment, and regulatory work — both at the level of general policy or in specific sectors. A very active Indonesia-Canada Chamber of Commerce organization already exists in Jakarta.

## Governance

- Paralleling and supplementing the excellent work being undertaken by Canada's development cooperation programs (which should be continued and further elaborated as set out in this report), civil society groups and stakeholders in both countries should establish a **Canada-Indonesia Citizens Network on Governance**. Its purpose would be to set priorities and support requirements for collaborative work among civil society organizations and institutions of learning, while advising governments on needs and priorities for more official activities.

Agendas may include, for example:

- exploration of best practices on open government, transparency and how best to sustain Indonesia's efforts in promoting "clean" government;

- looking at how governance innovations can help promote social inclusion, media freedom and tolerance for diversity; and
- a focus on innovative promotional and educational tools, expanding on work already being undertaken by Indonesian and Canadian organizations, such as the use of technology and the Internet to enhance civic awareness and to advance more inclusive forms of governance.

## Education, Engaging Young Leaders and Building Awareness

- Immediately **designate Indonesia a country of priority under Canada's International Education Strategy**.
- Send a multi-institutional **EduCanada team mission** to Indonesia in 2016, in conjunction with a major visit, involving heads of key institutions, aimed at creating targeted partnerships and showcasing in particular Canada's capacity to help Indonesia respond to its labour market development priorities.
- Organize a follow-up **education leaders conference in Canada** in 2017, bringing in Indonesians from government, universities, technical schools, and so on to witness first-hand the quality and variety of educational opportunities Canada offers.
- Develop a joint **young leaders strategy**, catalyzed by governments, and involving educational and youth-oriented institutions, leading businesses and others to develop a range of opportunities for young people of both countries to meet, interact and work together.
- **Hold a Year of Canada in Indonesia** before 2020, organized in conjunction with business and key provincial governments. It would involve a program of business and non-business events, several high-level visits and promotional activities, targeting in particular young Indonesians through social networks, culture and the digital media. Ideally, it would be held back-to-back with a **Year of Indonesia in Canada**, to promote Indonesia and broaden awareness among Canadians.



# Annex

## A Summary of Indonesian Grassroots Governance Initiatives

### **Open Data Lab**

- Focuses on transparency, accountability and citizen engagement, in particular regarding health, education and economic rights.

### **Association for Elections and Democracy (Perludem)**

- Focuses on elections, and cellphone apps that ease voting and assist citizens in making informed judgments at all levels of government.

### **Alliance of Independent Journalists**

- Focuses on media freedom and limits to free press.
- Calls attention to violence against journalists, which remains common in Indonesia.

### **Asia Justice**

- Works to end the culture of impunity over past human rights violations, which is an impediment to reconciliation.

### **Our Voice**

- This Indonesia-Canada (Women and Youth Development Institute of Indonesia and Parliamentary Centre) pilot initiative, supported by the Making All Voices Count multi-donor mechanism aims to develop and test a Short Message System polling platform connecting citizens and elected authorities on issues related to the implementation of Indonesia's Village Law.



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## Acronyms

ADB	Asian Development Bank
ADMM+	ASEAN Defence Ministers-Plus
AIIB	Asian Infrastructure Investment Bank
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CIDA	Canadian International Development Agency
CSIS	Centre for Strategic and International Studies
Cigi	Canadian International Grains Institute
EDC	Export Development Canada
FIPA	Foreign Investment Promotion and Protection Agreement
FTA	free trade agreement
G20	Group of Twenty
IDRC	International Development Research Centre
IT	information technology
OECD	Organisation for Economic Co-operation and Development
P3	public-private partnership
RCEP	Regional Comprehensive Economic Partnership
SMEs	small and medium-sized enterprises
TTP	Trans-Pacific Partnership



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