AUSTRALIAN - INDONESIAN RELATIONS,

A Study of Political, Economic, and Defence Cooperation

(1986-1996)

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ABSTRACT

This study explores and analyses the relationship between Australia and Indonesia in the period between 1986 and 1996, and particularly focuses on cooperation in the areas of politics, economics, and defence. In approaching and analysing the theme, the study adopts historical and systemic approaches.

It argues that a bitter legacy stemmed from the Jenkins affair in 1986 and, combined with an unstable relationship that both countries experienced previously, pushed the governments of Australia and Indonesia to find ways in which the relationship could be properly managed and improved. As a result it reached a firmer foundation when the two governments signed a new framework of cooperation in 1989. Under the new framework the governments agreed to broaden the relationship and committed themselves to concentrate on working together in areas of converging interests.

The new framework, the study argues, provided a new discourse in managing the bilateral relationship. It sidelined arguments about 'cultural differences', because, by stressing the need to collaborate in areas of converging interest, it implied that cultural arguments became less significant. It created the notion that it was in both countries' interests to establish and maintain the stability of the relationship. Thus, it buried an old perception that it was primarily in Australia's interests to have a good relationship with Indonesia. However, this does not necessarily mean that the argument about cultural differences was no longer important in making the bilateral relationship better.

Between 1986 and 1996, it is argued that the relationship between Australia and Indonesia was increasingly moved toward a deeper interaction. At the government to government level, mutual understanding grew considerably, as indicated by the changing attitudes in assessing the value of the relationship and how to make it an important and amicable reality. A stronger relationship also emerged in the area of economic cooperation. It is argued in the thesis that increasing economic interpenetration was obviously important for the continuity and stability of the wider bilateral relationship because it became a glue to adhere the relationship and it became a major consideration for both governments, to be considered before any issue could easily damage the relationship. Moreover, a strong relationship emerged too in defence cooperation. An increasing awareness by both Australia and Indonesia of the changing balance of power and its impact on the Asia-Pacific region moved both sides towards a better appreciation of their converging interests. In improving their defence relationship, both were of the view that close personal relations between their leadership cohorts could be a foundation for long term defence cooperation. Australia and Indonesia shared parallel responsibility for maintaining regional security, which was in particular symbolised by the signing of the security agreement by Australia and Indonesia in December 1995.

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Adelaide, April 1997.

This work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text.

I give consent to this copy of my thesis, when deposited in the University Library, being available for loan and photocopying.

Adelaide, 27 April 1997

Vinsensio Dugis

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Introduction

This thesis is about relations between Australia and Indonesia and focuses on the period between 1986 and 1996.

Indonesia and Australia are geographically close to one another. This geographic proximity, however, has not resulted in their sharing many characteristics. Indeed both, to borrow the words of Gareth Evans and Bruce Grant, have been "comprehensively unalike" because they "differ in language, culture, religion, history, ethnicity, population size and in political, legal and social systems," resulting in Australia and Indonesia being "half a world apart."[1] It has been argued that the enormous difference between the two countries has been a major factor behind the uneven and erratic history of their relationship. This study explores and analyses the extent to which this has still been the case in the period between 1986 and 1996. It focuses particularly on cooperation in the areas of politics, economics, and defence.

In approaching the theme, this study adopts historical and systemic approaches; interactions between states cannot be understood separately from the trend of global politics.

Part one, consisting of chapters one and two, reviews the evolution of the relationship between 1945-86. Its main objective is to examine the extent and the manner in which the bilateral relationship between Australia and Indonesia has been

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[1] Gareth Evans and Bruce Grant, *Australia's Foreign Relations in the World of the 1990s*, Melbourne, Melbourne University Press, 1991, pp. 184-5.

explored by other scholars. This historical background provides the point of departure for this study. Chapter one reveals that the bilateral relationship was very unstable in the period between 1945 and 1966. The ups and downs of the relationship may be explained by a combination of perceived fear, threat, and ignorance, which was reflected in their foreign policies. The period of the 1950 and the early 1960s can be characterised as one of conflict between Australia and Indonesia. The main issue in the 1950s was the dispute over Indonesia's efforts to integrate West New Guinea (now Irian Jaya), while in the early 1960s, Indonesia's policy of *konfrontasi* towards Malaysia forced Australia to be in conflict with Indonesia.

As discussed in chapter two, Soeharto was enthusiastically supported by Australia when he came to power in 1966. Soeharto abandoned the policy of confrontation and turned his attention to domestic economic development, pursuing a diplomatic policy of seeking aid from Western industrial countries. A different type of relationship with Australia emerged as that country used the politics of aid to underwrite its approach toward Indonesia. Australia joined the Inter Governmental Group on Indonesia (IGGI) and began to provide Indonesia with economic aid, although this trend did not evolve without some political difficulties. Issues such as the occupation of East Timor and the Australian media's reports on Indonesian political activities and leadership had a major impact on the bilateral relationship between 1966-1986, its lowest point reached during the saga of David Jenkins' article in 1986.

As mentioned previously, this study also adopts a systemic approach and is premised on the view that, in the modern international system, interactions between

states cannot be understood separately from the whole system. This is particularly true of middle-level and minor powers as such countries' foreign policies mostly follow the trend of global politics. Australia and Indonesia fall into this lower-level category. Thus, it is within this framework that both countries' foreign policy should most appropriately be examined. Part two of the thesis, consisting chapter three, four, and five, is devoted to that task.

Chapter three examines the trends in the international system in the 1980s. In the chapter, it is argued that the decade of the 1980s was marked by the shifting of global issues from geo-politics to geo-economics. For the super powers, particularly in the Soviet Union, mounting military expenditure resulted in various economic difficulties, yet at the same time, other countries such as Japan, China, and a number of those within the European Union began to emerge as alternative 'economic super powers'. The issues of greatest concern in the 1980s and those which dominated internationally were economic ones. In the Soviet Union, Mikhail Gorbachev attempted to reform the economy but failed. Indeed his policies resulted in the dissolution of the Soviet Union. Geo-political issues became less significant while geo-economic ones rose in importance.

The international situation described above had its impact on Australia and Indonesia throughout 1980s. As described in chapter four, during the 1980s Australia considerably restructured its foreign policy, from one that was globally and strategically oriented to the US, to one more economically and regionally oriented. This was a deliberate policy response to the decline of Australia's economy caused by upheavals of the global economy. The restructuring of Australia's foreign policy was

facilitated by the shifting balance of power, as the super powers' decline enabled middle power countries to exert more influence.

Chapter five examines Indonesia's foreign policy in the 1980s. It finds that since the middle of the 1960s, its economy and regional issues have been a fundamental consideration in the development of Indonesia's foreign policy. Throughout the 1980s, Indonesia maintained this local orientation while at the same time significantly increasing its international political activities. Government confidence in pursuing a more active role internationally was initially triggered by Indonesia's success in economic development. As Indonesia faced economic difficulties caused by the fall of oil price in the early 1980s, it intensified and expanded industrialisation. This process, in turn, pushed Indonesia to broaden its relationship with other countries, as it needed greater market access for its industrial products and non-oil exports.

Part three is the main focus of the thesis and examines the bilateral relationship in three main areas; the government/political arena; the economic relationship; and that of defence cooperation. Overall, examination of these areas suggests that the relationship has been moving towards stability and strength, a very different relationship when compared to the one that existed in the period before 1986. Both governments have worked strenuously to build the relationship to that point.

Chapter six begins by exploring the 'bitter legacies' of the Jenkins affair. It finds that the affair's subsequent effects on the bilateral relationship drove both governments to explore ways in which their relationship might be grounded more practically. After long diplomatic efforts, both governments reached agreement and

signed a new framework of cooperation in 1989. The basic contention of this chapter is that by signing the new framework of cooperation, the Australian and Indonesian governments created a new discourse for their relationship.

Under the terms of the new framework both governments agreed to extend their relationship and committed themselves to working together in areas of mutual interest, including those at the multilateral level. The effect of the new arrangement, as it will be argued in the chapter, was the sidelining of arguments about 'cultural differences'. This study argues that in stressing the need to collaborate in the areas of common interest the cultural arguments which emphasised difference became less significant. This, however, did not necessarily mean that the argument about cultural differences was no longer important in shaping the bilateral relationship. With the new arrangement came the notion that it was in both countries' interests to maintain the stability of the relationship. This buried an old perception, particularly among Indonesian elites, that it was primarily in Australia's interests to have a good relationship with Indonesia. These changes in outlooks have arguably produced new discourses in the relationship between Australia and Indonesia.

As the countries' political relationship moves closer, there is a corresponding increase in economic interpenetration. Chapter seven reveals that this was particularly driven by economic deregulation, a policy both countries have undertaken, and the growing awareness of the economic utility which Australia and Indonesia both countries can offer each other. This chapter also examines the implications of this increased economic interpenetration for future relations between the two countries.

Defence was historically an area in which Australia and Indonesia had found difficulty in developing a sound relationship. Chapter eight examines this area and reveals that since the middle of the 1980s, both nations have had an increasingly similar perception on regional security matters, and that this has slowly but steadily pushed both governments to closer defence cooperation. This chapter argues that in the process of achieving this, 'mateship' diplomacy among both countries' defence officers was instrumental, and reached its highest point when the governments signed a security agreement in December 1995. It is argued also that this security agreement has a number of highly symbolic political meanings for the Asia-Pacific region in general, and for Indonesia and Australia in particular.

PART ONE

AN UNSTABLE RELATIONSHIP;

Australian-Indonesian Relations, 1945 - 1986

This part of the thesis examines Australian-Indonesian relations from 1945 to 1986, and they are reviewed in chapters one and two. The aims of this part are twofold: to provide an adequate background as a point of departure for the whole study; and to look at the extent and the manner in which other scholars have explored and studied the relationship between Australia and Indonesia.

In general, the following two chapters demonstrate that in the years after World War II and until 1986, the relationship was predominantly unstable and narrowly focussed. At different periods of time, a variety of issues emerged to pull the relationship in different directions. Between 1950 and 1962 it was dominated by the West Irian issue, then followed by the confrontation policy between 1962 and 1966. Since 1975 the issue has been East Timor. In the two earlier matters, politico-defence strategy dominated the foreign policies of both countries. However, since East Timor has emerged as a critical issue, human rights and the attitude of the Australian media are high on the agenda. Over that time, the relationship tended to be a one issue relationship,[1] without a solid institutional basis. At the level of government, at various times relations have been said to: "lack substance, lack confidence, marked by varying levels of irritation."[2] The lack of sufficient network ties, both officially and informally, has been described as symptomatic of failure in the relationship.[3]

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[1] Colin Brown, "Australia-Indonesia Relations," in Nancy Viviani, ed., *Australia and Asia; the Capricornia Papers*, Research paper No. 10, Centre for the Study of Australian-Asian Relations of the Griffith University, 1980, pp. 71-82;

[2] Nancy Viviani, "Australia-Indonesia Relations -- Bilateral Puzzles and Regional Perspectives," *Australian Outlook*, Vol. 36 no. 3, 1982, p. 26.

[3] J. A. C. Mackie, "Australia and South-east Asia," in Coral Bell, ed., *Agenda for the Eighties*, Canberra, Australian National University Press, 1980, p. 141; and Desmond Ball and Helen Wilson, eds., *Strange Neighbours, the Australia-Indonesia Relationship*, Sydney, Allen and Unwin, 1991.

One perspective argued that the poor relationship was a product of the fact that Indonesia and Australia are unusual neighbours. Although geographically close, in many respects the two countries are markedly different, in language, culture, religion, history, ethnicity, population size, and economic development, a contrast rarely seen between two neighbours anywhere else in the world.[4] This view is commonly shared by Indonesian scholars and government officers.[5] These fundamental differences were heightened by distinctly different political, legal, and social systems, all of which contributed to the way in which Australians and Indonesians perceived each other. Given the wide range of cultural differences, it was not surprising that suspicion, misconception, instability and even conflict would emerge in the course of Australian-Indonesian relations. It was argued that this unfortunate relationship was the logical consequence of the vast differences between the two countries and that conflict was caused by "unfortunate misunderstandings and misperceptions," produced within the "tyranny of cohabitation" as the reflection of the two countries "cultural clash."[6] It is in this light that part of Australian public tended to regard Indonesia as a military threat, while among the Indonesian elites, there were those who believed in a

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[4] Jamie Mackie, "In Each Others' Minds: Indonesia in Australia's Mind,"; and Harry Tjan Silalahi and Mary Pangestu , "In Each Others' Minds: Australia in Indonesia's Mind," both in East Asia Analytical Unit of Department of Foreign Affairs and Trade, ed., *Expanding Horizons, Australia and Indonesia Into the 21st Century,* Canberra, AGPS, 1994, pp. 283-313; also Gareth Evans and Bruce Grant, *Australia's Relations in the World of 1990s,* Melbourne, Melbourne University Press, 1991, pp. 184-5.

[5] Ali Alatas, "Some Thoughts on Indonesian-Australian Relations," *Jurnal Luar Negeri,* No. 12, 1989, pp. 88-95; Hasjim Djalal, "Berbagai Dimensi Dalam Hubungan Indonesia-Australia," *Jurnal Luar Negeri,* No. 9, 1988, pp. 66-81; the view also was expressed by four members of the Indonesian House of Representatives whom I interviewed during fieldwork research. For scholars see Harry Tjan Silalahi, "Australia and Indonesia: Towards a More Positive Relationship," in Desmond Ball and Helen Wilson, eds., *op. cit.,* pp. 5-9; J. Soedjati Djiwandono, "Beyond Occasional Strains," in David Anderson, ed., *Australia and Indonesia, A Partnership in the Making,* Pacific Security Research Institute, 1991, pp. 57-60.

[6] Budiono Kusumohamidjojo, "The Indonesia-Australia Relationship: Problems Between Unfamiliar Neighbours,"; and Savitri Scherer, "The Tyranny of Cohabitation; Australian-Indonesian Relations," both in *Australia Outlook,* Vol. 40 no. 3, December 1986.

conspiracy theory that Australian journalists, academics and the left-wing of the Australian Labor Party jointly worked to discredit Indonesia leaders by bringing up issues of corruption, human rights abuses and social injustice.[7]

Another perspective argued, however, that the lack of strong economic ties was actually the root cause of the continuing political discord between Australia and Indonesia. Its proponents referred to the fact that although both nations have officially undertaken economic cooperation since 1950s, outcomes in economic terms have been minimal. Pangestu's study found that in 1993 only 2.9 per cent of Indonesian exports went to Australia and imports from Australia were only 4.9 percent of total Indonesian imports in the same year.[8] When compared with the figure in 1978 where Indonesian exports to Australia was 0.01 percent and Indonesian imports from Australia were 2 percent of total imports,[9] it is clear that growth has been very slow. In addition, Australia's economic aid to Indonesia in the past was mostly strategic, aimed at achieving foreign and security policy objectives. Those supporting this view suggest that the elimination of the political difficulties between Australia and Indonesia will be virtually automatic if economic ties between both countries are reinforced.[10] They argue that the primacy and logic of stronger economic links between Australia and Indonesia are fundamentally important in developing a stable and healthy relationship, and that they provide tangible means or

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[7] Harold Crouch, "Back to Square One: Australia-Indonesia Relations," *Island,* 30 August, 1987, pp. 17-8.

[8] Mari Pangestu, "Indonesia-Australia Economic Relations into the 21st Century," in Hadi Soesastro and Tim McDonald, eds., *Indonesia-Australia Relations; Diverse Cultures, Converging Interests,* Jakarta, CSIS, 1995, p. 65.

[9] Neil Dias Karunaratne, "Prospects for Stronger Australia-Indonesia Economic Ties," *Asian Survey,* Vol. 22 no. 3, 1982, p. 294.

[10] *Ibid,* p. 293.

bridging general differences. In the long term, it is argued, this pattern will help both the governments and peoples of Indonesia and Australia to look beyond their old suspicions.

Hal Hill, one advocate of this view, referred to the way in which Australia and Indonesia have developed their relations with Japan. Hc pointed out that the strength and importance of both countries' economic cooperation with Japan has sidelined Australia's and Indonesia's suspicion and mistrust over Japan, originating from Japan's role during the Pacific War. Hill suggested that the Australia-Indonesia politico-strategic relationship may be more easily managed and more likely to develop into a mature relationship if their economic links were strengthened, as has been the case between the two countries and Japan.[11]

Finally, the following two chapters reveal that despite various domestic factors, the trend of global politics and how both countries responded to it, was also another significant factor that influenced the instability of the bilateral relationship.

[11] Hal Hill, "Economic Relations," in David Anderson, ed., *op. cit.*, pp. 16-25.

CHAPTER ONE

FEAR, THREAT, AND IGNORANCE, 1945-66

Cordial But Ambivalent 1945-49

Most previous studies describe the early period of the relationship between Australian and Indonesia as close and cordial. They refer to Australian support for the Indonesian struggle for independence between 1945-49. This has been the official Australian view.[1] The following is a summary of how these studies have described and elaborated this cordial relationship.

After Japan surrendered to the Allies at the end of the World War II, Indonesian nationalist leaders moved quickly to declare independence on 17 August 1945. There were already about 10,000 Indonesians in Australia for some of the period between 1942-45. The majority of them had been brought to Australia by the Dutch after it surrendered to Japan in 1942. They worked for low wages in Dutch ships, and a few of them were employed in Dutch government organisations.[2] These Indonesians received the report of independence happily and many of them were repatriated by the Australian government.

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[1] Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's Relations With Indonesia,* Canberra, AGPS, 1993, p. 3.

[2] Martin O'Hare & Anthony Reid, *Australia Dan Perjuangan Kemerdekaan Indonesia,* Jakarta, Gramedia, 1995, p. 7.

However, the Netherlands Indies Government-in-Exile (hereafter the Dutch), who had moved to Australia since Japan occupied Indonesia in 1942, had a different intention – to regain power in Indonesia. Aware of the Dutch plan, Indonesians in Australia were completely opposed to it and showed their opposition in many ways. In September 1945, the Indonesian Seamen's Union in Australia, fully supported by the Australian Waterside Workers' Federation (WWF) organised an embargo on any Dutch ships allegedly preparing to transport munitions to Indonesia. Starting in Brisbane, where many Dutch ships were anchored, the embargo attracted wide support from workers in the other major Australian ports including Sydney, Melbourne, and Adelaide.[3] Activities by the Waterside Workers initially were limited to refusing to load Dutch cargoes and repairing Dutch ships but later extended to a boycott of Dutch transport, stores and depots ashore. The embargo continued until 1948 and, in total, there were 31 Australian trade unions and four unions of Asian seamen directly involved. Between them, they paralysed 559 Dutch ships which were to supply the Dutch effort to regain control of Indonesia.[4]

The embargo prompted the Dutch to take military action in July 1947. Australia responded by condemning the actions of the Dutch. The Australian representative in the United Nations (UN), Mr. J. Burton, raised the issue to the Security Council, referring to article 39 of UN Charter which condemned the use of military power especially without any warning. The UN, in an attempt at finding a way of resolving the dispute between Indonesia and the Dutch, established the Good

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[3] M. P. Schneider, "Australia and Indonesian Independence, A Study In Australian Foreign Policy," Honours Thesis, the University of Adelaide, 1955.

[4] Rupert Lockwood, *Black Armada, Australia & The Struggle for Indonesian Independence 1942-49*, Sydney, Hale & Iremonger, 1982, p. 4.

Offices Committee. In negotiations Indonesia was represented by Australia and the Dutch by Belgium, and the United States of America (US) was chosen by both Indonesia and the Dutch as a third neutral member. Australia took a similar position after finding that the Dutch took a second military action. When the Dutch took military action again in December 1948, the Australian representative in the UN, now Mr. T. Critchley, criticised and condemned the Dutch. Australia urged him to defend the Indonesian position by using the strongest possible terms. At this point, the Roman Catholic Church in Australia added its voice to the condemnation of the Dutch. Initially the Church was concerned by the growth of communist forces in Indonesia and their possible links to the Communist Party of Australia (CPA), but this did not prevent its strong opposition to the use of military force by the Dutch. The Church urged the Australian government to raise the case in the UN.[5] Subsequently, Australia sent two officials to the Asian Conference in New Delhi, India, in January 1949, one of the themes of the conference being "to consider possible action against the Dutch."[6] These activities led in 1950 to the Australian government's co-sponsorship of Indonesia's admission to the UN.[7]

One unnamed officer from the Australia's Department of External Affairs was quoted as saying that Australia's attitude in the Security Council and in the Good Offices Committee would be remembered by Indonesians as an important and historical moment, and that "Canberra's Indonesian peacemaking has earned Australia more Dutch ill-will — along with Indonesian good-will — than the never-to-be-

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[5] M. P. Schneider, *op. cit.*, pp. 46-8.

[6] B. D. Beddie, "Australian Policy Towards Indonesia," in David Petit, ed., *Selected Readings in Australian Foreign Policy,* Sydney, Sorrett, 1973, p. 123.

[7] Gareth Evans and Bruce Grant, *Australia's Foreign Relations In the World of the 1990s,* Melbourne, Melbourne University Press, 1991, p. 186.

forgotten Dutch shipping ban."[8] This statement clearly symbolises how close the relationship was at that time. It also indicates how strong Australia was in supporting Indonesia's struggle for independence. It gives the impression that Australia was the major player in putting Indonesia's case on the UN's agenda.

The unions' boycott proved effective. Up until March 1946, for example, 1,000 Dutch trucks, intended for shipment to Indonesia, still remained in Australia.[9] The delays brought about by the massive boycott weakened and incapacitated the Dutch strategy to regain power, while allowing the new Indonesian government to consolidate power. Furthermore, the boycotts were instrumental in creating international support for Indonesian independence. In Australia, Indonesians were encouraged to organise and take actions against the Dutch, and as an historian has noted, many of these Indonesians returned to their homeland to play crucial roles in the struggle to retain Indonesian independence.[10] It is worth noting, however, that many Australian Unions at the time were under the influence of the CPA. The support by the Waterside Worker Union with its communist leadership can be interpreted as support by the CPA, which was of the view that the dispute between Indonesia and the Dutch epitomised conflict between "colonial power and its oppressed subjects," and it argued that the defeat of Dutch capitalism in Indonesia would strike another blow at world capitalism.

It is true that Australia's public support and sympathy both from the government and public was genuine and was part of moral support for the Indonesian

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[8] M. P. Schneider, *op. cit.*, p. 72.
[9] Rupert Lockwood, *loc. cit.*
[10] Martin O'Hare & Anthony Reid, *op. cit.*, p. 13.

revolution, but it is also the case that Australia's official attitude was rather ambivalent, and Australia's policies contained some element of reserve. During the entire period of boycott, for example, there was no substantive policy indicating whether the Australian government formally stood behind the boycott or otherwise. Most of the comments regarding Indonesia were generally raised when the government was attacked by the Opposition. Australia played an 'unclear' policy game with two aims; to give the impression to Indonesia that it was sympathetic to Indonesia's struggle for independence, while at the same time it was able to argue to the Dutch that the massive boycott by the unions was not official policy.[11] One scholar categorised the initial support of the Australian government for Indonesia as some kind of sympathy, conveyed "through various minor gestures"; Australia asked the Dutch to grant "a greater degree of self-government to the Indonesians" but at the same time "it [Australia] did not deny Dutch sovereignty in Indonesia, [and] it sold surplus military equipment to the Dutch and withheld recognition from the Republic."[12]

In dealing with Indonesia, the Labor government was hampered by a lack of unanimity. According to a study by Margaret George, this was particularly the case between the Minister for External Affairs, Herbert Evatt, and Australia's representative in the UN, Mr. J. Burton and Mr. T. Critchley. Evatt was strongly influenced by the idea that to secure its interests in the Pacific region Australia's defence system should be tied to Western powers with similar interests, and he held

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[11] T. B. Millar, *Australia in Peace and War, External Relations 1788-1977,* Canberra, ANU Press, 1978, p. 225.

[12] J. A. C. Mackie, "Australia and Indonesia, 1945-60," in Gordon Greenwood and Norman Harper, eds., *Australia in World Affairs 1956-1960,* Melbourne, F. W. Cheshire, 1963, pp. 274-5.

the view that Australia's Asian neighbours should adopt Western political and economic standards. Evatt believed that Australia's relations with countries in the Southeast Asian region were unequal, based on intolerance and a fear of difference. Evatt, as revealed by George, once proclaimed the value of European colonial powers as potcntial to instil the conception of the individual rights, and argued for the continuation of Dutch presence in Indonesia.[13] Burton and Critchley disagreed and favoured the principle of national self-determination, both were convinced that "Australia's demonstration of confidence in the Indonesian peoples was the way to establish the basis for a mutual relationship of acceptance and peaceful co-existence."[14] This ambiguity resurfaced during a visit by an Indonesian delegation to Australia after the first of the Dutch military actions. The delegation, led by Prime Minister Sjahrir, intended to discuss the situation and persuade the Australian government to formally raise the Dutch action to the UN. However, the discussion failed and the Indonesian delegation was reported to have been disappointed, claiming that there was no clear response from the Australian side.[15]

It is a matter of record that the Australian government represented Indonesian interests and played a significant role in the Good Offices Committee. However, it was actually India which [redacted] brought the dispute to the attention of the UN. Following the first police action by the Dutch in 1947, Nehru, the Indian Prime Minister, appealed to the US and the British governments to take action. When no response was forthcoming from either nation, Nehru sent a letter to the Secretary General of UN,

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[13] Margaret George, *Australia and the Indonesian Revolution,* Melbourne, Melbourne University Press, 1980, p. 101.

[14] *Ibid,* p. 166.

[15] *Ibid,* pp. 78 onwards.

informing him that "the Dutch had launched a military action in a big scale toward Indonesia, without any preliminary warning."[16] When the case was taken to the Security Council by both India and Australia, India referred to article 34 of the UN Charter, stating that international situation was threatened following the Dutch military action. Australia based its argument on article 39, stating that the Dutch's military action was already breaking the peace. The Security Council regarded the Australian reason as stronger than India's, so that in the following process the UN referred to article 39. This clearly indicated that it can not be claimed that Australia was the only party which played a major role in promoting the Indonesian case in the UN between 1945-49. This is perhaps why a leading historian of Asian diplomatic history at Cambridge University, A. W. Stargardt, wrote in one of his works that "India and Australia referred the Case [the Dutch-Indonesian dispute] to the Security Council and, as a result, the UN Good-Offices Committee on Indonesia was established on which the Netherlands chose to be represented by Belgium and the Republic of Indonesia, by Australia."[17]

The history of Indonesia's case before the UN shows that Jamie Mackie's claim of two decades ago was well-founded. Mackie argued that Australia tended to have highly ambivalent attitudes toward Indonesia, an attitude that had developed since Indonesia won independence in 1945. On the one hand, argued Mackie, Australia wanted to promote cordial relations with Indonesia, but on the other hand it remained "uneasy, suspicious or apprehensive about Indonesia — or in some cases

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[16] Hilman Adil, *Hubungan Australia Dengan Indonesia 1945-1962*, Jakarta, Djambatan, 1993, p. 54.

[17] A. W. Stargardt, *The Road To Bandung: The Emergence Of The Asian System of Powers*, Cambridge, Cambridge University Press, 1988, p. 7, emphasis added; see also Werner Levi, *Australia's Outlook On Asia*, Sydney, Angus and Robertson, 1958, p. 183.

contemptuous, unsympathetic or uninterested."[18] Despite the uneven policy response, it should not be forgotten that Australia granted Indonesia *de facto* recognition in July 1947, and *de jure* recognition in December 1949.[19]

The West Irian Dispute 1950-62

The defeat of Chifley's Labor government in 1949 and the coming to power of the Coalition government led by Robert Menzies changed the nature of the relationship between Australia and Indonesia. Although the Menzies government granted *de jure* recognition, co-sponsored Indonesia's admission to the UN in 1950, and sent the Foreign Minister to make a first official visit to Indonesia in the same year, these events did not prevent the two countries from entering into dispute over the issue of West Irian (West New Guinea) during the 1950s.[20]

On 27 December 1949, the Dutch and Indonesian governments concluded an agreement in which the Dutch formally transferred sovereignty to Indonesia, although still retaining their economic assets in Indonesia. The Charter of Transfer of Sovereignty, however, contained one crucial point of disagreement – the political status of West Irian. The Dutch government wanted West Irian to be separated from the territory of the Republic of the United States of Indonesia. Indonesia demanded it as an integral part of the new federation. Failing to reach agreement, it was decided that the status quo of West Irian was to be maintained, and that the matter would be

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[18] J. A. C. Mackie, "Australian-Indonesian Relations," *Current Affairs Bulletin*, 1 October 1976, p. 12.

[19] Carlyle A. Thayer, "Australian Perceptions and Indonesian Reality," *New Zealand International Review*, Vol. 13 no. 4, 1988, p. 6.

[20] West Irian and West New Guinea refer to the same territory in the western part of New Guinea, formerly occupied by the Dutch. For the consistency I prefer to use West Irian.

negotiated one year after the date of the transfer of sovereignty.[21] Twelve months later the stalemate merely continued, the Dutch refusing to move from their original position. President Soekarno felt that the Dutch broke their promise to negotiate the handover of territory. He realised the possession of West Irian by the Dutch would potentially disadvantage Indonesia. It could possibly trigger the secession of other states within the Republic of the United States of Indonesia, formed by the Dutch as part of negotiation after the Dutch took twice military action. Therefore, when President Soekarno started a political campaign to take over West Irian, he dispersed the Republic of the United States of Indonesia and declared it to be the Republic of Indonesia.

Stepping up the campaign, President Soekarno argued that West Irian was part of the former Netherlands Indies territory, to which Indonesia was entitled after independence. He also felt that the acquisition of West Irian was psychologically important to complete the building of Indonesia's unity which would be difficult to achieve as long as the Dutch government held the territory as a springboard to regain at least some of its lost power in Indonesia.[22] Furthermore, Soekarno claimed that the people of West Irian were in a similar economic and social position to many of the people of Indonesia, and they could better determine their affairs as part of Indonesia than in any other way. Even more significantly the Indonesian government argued strongly that West Irian had been an integral part of the Majapahit Empire in the fourteenth century, an empire which Indonesians had historically recognised as

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[21] Arend Lijphart, *The Trauma of Decolonization, The Dutch and West New Guinea,* New Haven and London, Yale University Press, 1966, p. 14-5.

[22] J. F. Cairns, *Living With Asia,* Melbourne and London, Lansdowne Press, 1965, p. 82; also E. M. Andrews, *A History of Australian Foreign Policy, From Dependence to Independence,* Melbourne, Longman Cheshire, 1979, pp. 152-6.

'Indonesia' long before the arrival of Western colonialism.[23] In countering the Indonesians the Dutch argued on the basis of race. They declared that "the people of West Irian were not of the same race as Indonesians and should decide their own future."[24] However, the bottom line of the Dutch objective was not self-determination for West Irian people. According to a study by Arrend Lijphart, it was the retention of the Dutch to secure its economic interest in Indonesia: "the Dutch might have attempted to use the promise of a gradual and conditional transfer of the territory to Indonesia as a means to safeguard their extensive economic interests in that country."[25]

In facing this situation, Australia followed the Dutch arguments but with its own security interests in mind.[26] The notion of a threat from the North ("Yellow Peril") had a strong grip on the minds of many Australians. Experience during the World War II had proven how important the areas around Australia were for its own strategic defence, and one of the most significant was New Guinea. The Australian government was obsessed with the idea that the existence of "aggressive, united or monolithic force" would cause another World War,[27] and it saw a politically unstable Indonesia, at the mercy of communist interests, as a potential threat to the security of East New Guinea and Australia itself.[28] The result was that the Australian government

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[23] Hilman Adil, *op. cit.*, p. 134

[24] J. F. Cairns, *op cit.* p. 82.

[25] Arend Lijphart, *op. cit.*, p. 65.

[26] Henry S. Albinski, "Australia and the Dutch New Guinea Dispute," *International Journal*, no. 16, 1961, pp. 358-82; C. P. FitzGerald, "Australia and Asia," in Gordon Greenwood and Norman Harper, eds., *Australia in World Affairs 1950-55*, Melbourne, F. W. Cheshire, 1957, pp. 202-5; and Andrew James Strickland, "Australia and the West New Guinea Dispute: the Crystallisation of a Policy," Honours Thesis, the University of Adelaide, 1973.

[27] T. B. Millar, *op. cit.*, p. 227.

[28] Ign. Kristanyo Hardojo, "Australian Policy on the Future of Western New Guinea (Irian Jaya): A Historical Approach from 1945-1963," *Indonesian Quarterly*, Vol. 20 no. 2, p. 202.

informed the Indonesian government in 1950 in very explicit terms, that it was unsymphatetic to Indonesian claims over West Irian. The Australian Foreign Minister, Sir Percy Spender, told the Dutch government and the Australian Parliament that the West Irian was "an absolutely essential link in the chain of Australian defence" and therefore "Australia might be able to help the Netherlands administer, develop and defend West New Guinea [West Irian], or even go further than that."[29] It became apparent that Australia had not only moved out of the Indonesian camp but that it was also not ruling out the possibility of conflict between them.

President Soekarno's aggressive style of campaigning heightened the potential for conflict. In his national address of Independence Day in August 1950, for example, Soekarno bluntly asserted that a massive conflict would occur if the solution over West Irian disappointed Indonesia. Similarly, in February 1950, Mohammad Hatta, in his capacity as Indonesian Prime Minister, was asked by journalists whether Indonesia would claim Britain's North Kalimantan as well. Hatta was quoted as saying that, at that time, Indonesia was only interested in the former Dutch territory.[30] In Australia, this statement was interpreted as rather aggressive and as implying a plan for claiming other territories. Absorbed by the combination of ideological and strategic considerations, there was a belief within the Australian government that the West Irian case might be part of an experiment by Soekarno to exercise expansionist ambitions. This fed Australia's perception of threat, and some believed that the acquisition of West Irian would be followed by Papua New Guinea, a territory claimed by Australia to be "an absolutely essential link in the chain of Australian defence."

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[29] T. B. Millar, *op cit.*, pp. 226-27.
[30] Hilman Adil, *op. cit.*, pp. 136-40.

Subsequent to informing Indonesia of Australia's position, the Menzies government undertook substantial policy initiatives. When, in 1954, Indonesia sought to raise the case of West Irian before the UN after failing to achieve agreement with the Dutch, Australia mounted a vocal campaign among UN member countries, aimed at preventing Indonesia from obtaining majority support. Australia's Minister for Foreign Affairs, Mr. Richard Casey, stated that "Australia would resist the proposed Indonesian attempt to bring the question of Dutch New Guinea [West Irian] before the United Nations."[31] The antagonism was heightened when in 1958 Australia concluded a bilateral agreement with the Dutch. The two governments issued a joint statement on possible future cooperation on administrative policies in New Guinea. Casey flew to Holland for discussions with the Netherlands Foreign Minister. In his press release following the meeting Casey clearly indicated that Australia's position supported the Dutch when he declared that, "Australia fully recognises and supports Dutch sovereignty over the western half of New Guinea."[32] This statement prompted speculation about a possible joint agreement between the Australian and Dutch governments on future policies, including the possibility of military cooperation should it prove necessary.[33]

As well as strategic considerations, ideological differences at the time also contributed to the change in relations between both countries.[34] Under Menzies'

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[31] C. P. FitzGerald, *op. cit.*, p. 205. Casey also involved in personal discussions with Indonesian Foreign Minister, and in a polite way Casey tried to convince his counterpart why the West New Guinea need not to be discussed in the UN forum, see T. B. Millar, ed., *Australian Foreign Minister, The Diaries of R. G. Casey 1951-60*, London, Collins, 1972, pp. 191-2.

[32] *Ibid*, pp. 298-99.

[33] Gordon Greenwood, *Approach to Asia; Australian Postwar Policies and Attitudes*, Sydney, McGraw-Hill, 1974, p. 292.

[34] J. A. C. Mackie, "Australian-Indonesian Relations," *op. cit.*, p. 15.

leadership, Australia was a strong supporter of an anti-communist alliance, and its foreign and defence policies relied on its powerful allies, the US and the Britain. For the Indonesian government Australia's anti-communist stance was epitomised by its involvement in the South East Asia Treaty Organisation (SEATO), formed in 1954 with the main objective to contain communist influence in the South East Asian region.[35] Indonesia under Soekarno's leadership, based its foreign policy upon non-alignment and anti-colonialism. The Bandung Asia-Africa Conference in 1955, where countries from Asia and Africa declared their opposition colonialism, was one major example of how non-alignment and anti-colonialism were formulated and implemented in Indonesia's foreign policy. As a matter of record, Menzies was invited to participate in the Asia-Africa Conference but he refused to attend.[36] This refusal was yet another indicator of the substantial size of this ideological difference. In explaining the ideological differences between Australia and Indonesia, it is worth looking at Menzies' perception of Soekarno when Menzies was the leader of the opposition, particularly as Menzies' view of Soekarno later influenced Australia's policy toward Indonesia. Menzies once characterised Soekarno as a man who collaborated with the Japanese.

> Surely nobody in Australia wants to feel that, ... we have a population that either is directly influenced by the Japanese, or has at its head people whose only claim to history is that they collaborated with the Japanese during the war. Soekarno, the man who visited Japan to pay his tribute to the Japanese people in this war! Soekarno, the man who led the feeling against the British and American in the course of this war! If the Australian

[35] George Modelski, ed., *SEATO,* Melbourne, F. W. Cheshire, 1972.

[36] A. W. Stargardt, *Australia's Asian Policies, The History of a Debate 1839-1972,* Hamburg, Institute of Asian Affairs, 1977, pp. 244-5.

> Waterside Workers, with the Australian Government doing nothing, are to install him in a position of authority in the Netherlands East Indies, then I say that Australia must look to its security. Instead of having, in a political sense, a barrier reef in the north-west, Australia will have a potential base of attack against itself.[37]

The relationship, however, started to shift when Indonesia determined that it would take over West Irian by military force. Initially, Australia did not respond; it waited for US and the Britain to react. However, there was no sign from either country that they were interested in military retaliation against Indonesia. The Australian government was obliged to back down. The Minister for External Affairs, Sir Garfield Barwick, acknowledged this by saying that, "if any should have contemplated a military adventure it is worth remembering that none of the countries of the West, and particularly those with whom Australia has the closest association were at any relevant time willing to maintain a Netherlands administration by military means."[38] As a result, Australia was forced to reassess its radical policy.[39] When the Indonesian Foreign Minister, Dr. Soebandrio, visited Australia in 1959, the Australian government declared that it would "accept any agreement reached between Indonesia and the Netherlands, providing it has obtained by peaceful means."[40] The changed policy was confirmed during the visit of Prime Minister Menzies to Indonesia in the

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[37] "Liberal Party Leader R. G. Menzies opposes national self-determination in the Dutch East Indies," *Commonwealth Parliamentary Debates,* House of Representative, Vol. 186, 6 March 1946, pp. 7-9, compiled by Neville Meaney, *Australia and the World,* Melbourne, Longman Cheshire, 1985, p. 534.

[38] *Commonwealth Parliamentary Debates,* House of Representatives, 21 August 1962.

[39] Justus M. van der Kroef, "Australia and the West Irian Problem," *Asian Survey,* Vol. 10 no. 6, 1970, p. 487.

[40] Andrew Mills, "Australian-Indonesian Relations: A Study of the Timor Sea Maritime Delimitation," Honours Thesis, the University of Adelaide, 1985, p. 24.

same year. It was subsequently reinforced during General Nasution's visit to Australia in 1961, during which "Australia gave additional assurances that it had not entered into a military pact with the Netherlands for the defence of WNG [West New Guinea]."[41] In fact, Australia had no choice after the US under the Kennedy administration in August 1962 changed its position from being pro-Dutch to one of greater sympathy towards Indonesia.

Despite pressure by the US, the role of Sir Garfield Barwick was important in reversing Australia's policy. He became Minister for External Affairs in December 1961 and made a personal assessment that Indonesia was not a threat to Australia, and it did not have sufficient capacity to be militarily expansionist. He believed that even the acquisition of West Irian by Indonesia would not constitute any security threat to Australia. Barwick, despite criticism from the Australian press and public, then persuaded his government to accept a total reversal of the policies which Australia had adopted over the issue of West Irian. Barwick proposed five important policy changes; firstly, the avoidance of armed conflict in the region; secondly, adherence to the principle of self-determination; thirdly, the desirability of developing friendly and cooperative relations with Indonesia; fourthly, the promotion of negotiations between the principal parties to reach a peaceful solution; and fifthly, the withdrawal of support for the Dutch administration and acceptance of Indonesian impending control of the territory.[42] When Barwick called for continued friendship with Indonesia, his proposal was portrayed by the press as appeasement or making concession to an aggressor. The

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[41] *Ibid.*

[42] Garfield Barwick, *A Radical Tory; Garfield Barwick's Reflections and Recollections*, Sydney, the Federation Press, 1995, pp. 175-6.

Sydney Morning Herald even accused him of being unfit to hold his portfolio.[43] Barwick's policy, nevertheless, weakened the Dutch position and smoothed the path for Indonesia and the Dutch to reach a bilateral agreement, subsequently signed in August 1962.[44]

In summary, during the 1950s, uncertainty about Indonesian politics seemed to prevent Australia's making a clear-cut policy on matters associated with Indonesia. On the Australian side, problems in the relationship reflected a combination of expectations about Indonesia's disintegration, fear of communism, and apprehensions about Indonesia's intention to be expansionist. The lack of clarity contributed to difficulties in building bilateral trust and confidence. In Australia, the lack of a wider assessment of Indonesian aspirations prevailed until Sir Garfield Barwick came with a new style and straight-forward approach. Barwick was reported to have based his broader assessment of Indonesia and the strategic significance of West Irian on a complete briefing by the Australia's Chiefs of Staff.[45] More importantly, the West Irian case had clearly indicated how sentiments which "were strongly felt but rarely well informed" dominated Australian attitudes and policy toward Indonesia.[46] Fear, ignorance, and threat contributed significantly to the uneven relationship between Australia and Indonesia during the 1950s.

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[43] David Marr, *Barwick,* Sydney, George Allen & Unwin, 1980, pp. 170-71. For a wider analysis of Barwick's sudden turn-over approach, see Hanno Weisbrod, "Sir Garfield Barwick and Dutch New Guinea," *Australian Quarterly,* Vol. 39 no. 2, June 1967, pp. 24-35.

[44] For a detail study on the agreement see Christopher J. McMullen, *Mediation of the West New Guinea Dispute, 1962: A Case Study,* Washington, D. C., Institute for the Study of Diplomacy, School of Foreign Service, Georgetown University, 1981; and William Henderson, *West New Guinea; the Dispute and Its Settlement,* South Orange, N. J., Seton Hall University Press, 1973.

[45] Hanno Weisbrod, *op. cit.,* p. 30.

[46] J. A. C. Mackie, "Australian-Indonesian Relations," *loc. cit.,* p. 314.

Konfrontasi **1963-66**

After World War II, Australia's strategic and security concerns shifted, and for the first time, the Southeast Asian region became Australia's main security concern. On 9 March 1950 Australia's Minister for External Affairs, then Percy Spender, stated that in pursuing foreign policy, Australia, because of its geographic situation, had to pay serious attention to the need to maintain peace in its own region.[47] The endorsement of a Forward Defence Perimeter was a clear indication of how strategic and security concerns shifted;[48] neighbouring regions, particularly Southeast Asia, became much more important to Australia. Furthermore, Australia associated the strategic value of Southeast Asia with what the Western countries commonly believed at that time to be the threat of a geopolitical communist offensive. Forward Defence Perimeter was to be Australia's protection against communist encroachment. Soviet communism was regarded as the main contender in opposition to Western capitalism. When the Chinese Communist Party was victorious on mainland China in 1949, China was seen as part of that communist geopolitical strategy.[49] Consequently, countries which had a close relationship with China were regarded as a potential threat as well.

The notion of such a strategy was prominent in Australian politics when the British government proposed the Federation of Malaysia in September 1961. Menzies described the plan as "an imaginative and far-sighted concept" which might contribute significantly to stability and progress in a region in which Australia was deeply

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[47] *Current Notes*, Vol. 21, 9 March 1950, pp. 153-73.

[48] Ratih Hardjono, *Suku Putihnya Asia, Perjalanan Australia Mencari Jati Dirinya*, Jakarta, Gramedia, 1992, pp. 180-5.

[49] T. B. Millar, *op. cit*, p. 251; and Henry S. Albinski, *Australian Policies and Attitudes Toward China*, Princeton, New Jersey, Princeton University Press, 1965.

interest.[50] By the same token, when the federation came into existence, Menzies would be able to use it to advance Australia's strategic and security interests. Prior to the announcement of the proposal for federation, a defence treaty between Britain and Malaya was signed on 31 August 1957. It had the strong support of the Menzies government. By supporting the treaty, the Australian contribution to the Commonwealth Strategic Reserve would be allowed to remain in Malaya with two main tasks: to combat the communist guerillas, and to defend Malaya if attacked. Australia formally joined the treaty through an exchange of notes between Canberra and Kuala Lumpur in 1959.[51] In the early 1960s Canberra then supported proposal to extend Malaya into the Federation of Malaysia by adding Singapore and the British territories in northern Borneo.

In facing this proposal, Indonesia took a different view. It opposed the formation of Malaysia and employed a policy of confrontation (*konfrontasi*) aimed at breaking up the new proposed federation of Malaysia through military and political destabilisation.[52] Indonesia's opposition to Malaysia was based on the following grounds.[53] Ideologically, Indonesia regarded the Malaysia federation as a puppet of British imperialism; a neo-colonialist creation aimed at maintaining British influence in the Asian region by pretending to cooperate with local rulers and business groups (predominantly Chinese). In Indonesian eyes, it was a British construction, against the wishes of local people signalling the beginning of neo-colonialism in Asia. On security

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[50] Cited in Gordon Greenwood, *op. cit*, pp. 297-98.

[51] R. Catley, "Australia, Malaysia and the Problem of Confrontation," PhD Thesis, the Australian National University, 1967, p. 22.

[52] For a substantial study see J. A. C Mackie, *Konfrontasi, The Indonesian-Malaysian Dispute 1963-1966,* Kuala Lumpur, Oxford University Press, 1974.

[53] J. A. C. Mackie, *Konfrontasi, op. cit,*. p. 8-9.

grounds, the Indonesian government believed that the existence of the federation would place Indonesia under constant and serious threat, given that the British and Malaya had signed a defence treaty in 1957, and which was then joined by Australia in 1959. Indonesia wondered whether the proposed federation was partly aimed by the Britain to encircle and subjugate Indonesia's position in the region. As a country which had historically experienced 350 years under Dutch colonialism and gained its independence through political revolution and military struggle, Indonesia rejected any suggestion of continuing imperialism in a near neighbour. For Indonesia, imperialism was identical with domination and exploitation. The presence of British troops in Malaysia only reinforced the impression of an imperialist power willing to intervene in Asian problems and which might possibly lead to the region's instability and national disintegration, just as the Dutch had attempted in Indonesia. The Indonesian government, furthermore, felt that the creation of a Malaysian federation violated the law. It accused the parties involved of deliberately announcing the federation's establishment one month earlier (August 1963) than it was planned (September 1963). This was significant for Indonesia because the announcement came while the UN Commission concluded its investigation into whether the majority of people in North Kalimantan had agreed voluntarily to join the proposed federation.

As a matter of record, Australia was strongly against Indonesia's confrontation policy and conflict was inevitable.[54] In supporting the federation of Malaysia, Australia based its policy on three major considerations: strategic interests; defence commitments in relation to the Britain and Commonwealth; and legal aspects in regard

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[54] Hilman Adil, *Australia's Policy Towards Indonesia During Confrontation, 1962-66,* Singapore, Institute of Southeast Asian Studies, 1977.

to the UN. As revealed previously, the establishment of a new federation was in line with Australia's strategic interests. Menzies, in supporting the federation, argued that since the Federation of Malaysia was recognised by the Commonwealth, it was Australia's sister country, and therefore, he said, it was reasonable for Australia to confront whoever opposed the creation of it.[55] In the Parliament, Menzies bluntly stated that in the defence of Malaya's territorial integrity and political independence, Australia should add its military assistance to the efforts of Malaysia and the Britain.[56] Thus, Australia's membership in the British Commonwealth was added to the factors influencing Australia's position.[57] Throughout the period of confrontation, moreover, Menzies also argued strongly that Malaysia's formation had been recognised by the UN. He referred to a firm declaration by U Thant, then Secretary-General of the UN, which supported the results of an investigation by the UN Commission, into the views of the people in North Kalimantan on joining the Federation. U Thant stated:

> It is my conclusion that the majority of the peoples of the two territories ... wish to engage, with the peoples of the Federation of Malaya and Singapore, in an enlarged Federation of Malaysia through which they can strive together to realise fulfilment of their destiny.[58]

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[55] Consult Menzies' arguments in "Australia's Response to Indonesia's Konfrontasi of Malaysia," *Commonwealth Parliamentary Debates,* House of Representative, Vol. 42, 21 April 1964, pp. 1279-80, compiled in Neville Meaney, *op. cit,* p. 662; and also Abdul H. Egoh, "The Malaysia-Indonesia Dispute, A Study of the Role of the Commonwealth in Contemporary International Politics," Honours Thesis, Politics Department, the University of Adelaide, 1965.

[56] *Commonwealth Parliamentary Debates,* House of Rep., 25 September 1963, p. 1339.

[57] For a broader argument see K. H. Bailey, "Australia's Membership in the British Commonwealth of Nations as Affecting her Postwar Role Among the United Nations in the Far East," in Australian Institute of International Affairs, *Australia and the Pacific,* New York, Freeport, 1970, pp. 1-42.

[58] Cited in Gordon Greenwood, *op. cit,* p. 300.

The arguments raised by Australia and Indonesia were heavily influenced by the very different ideological positions of the countries' leaders. President Soekarno was already widely known as the 'champion' of anti-colonialism and he was proud of Indonesia's victory over West Irian. He believed that he would be able to remove British influence and presence from the Asian region just as he had ousted the Dutch from West Irian. By 1964, Soekarno began to accelerate his campaign of "crush Malaysia", part of which involved supporting rebel groups in North Kalimantan. Infiltration by Indonesians into North Kalimantan forced a response from Australia. On 25 September 1963, Menzies sent an unequivocal message to Indonesia that Australia would provide military assistance to Malaysia if Indonesia continued to take military action in pursuing its confrontation policy. In the Parliament Menzies told members:

> ... if, in the circumstances that now exist, and which may continue for a long time, there occurs, in relation to Malaysia or any of its constituent states, armed invasion or subversive activity — supported or directed or inspired from outside Malaysia — we shall to the best of our powers and by such means as shall be agreed upon with the Government of Malaysia, add our military assistance to the efforts of Malaysia and the United Kingdom in the defence of Malaysia's territorial integrity and political independence.[59]

On 16 January 1964, as a response to Sockarno's increasingly active campaign of "crush Malaysia," Menzies again addressed the Parliament and repeated his previous stance on the issue of Malaysia.[60]

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[59] *Commonwealth Parliamentary Debates,* House of Representatives, 25 September 1963.
[60] *Current Notes on International Affairs,* Vol. 35 no. 1, January 1964, p. 2.

Menzies took two policy steps throughout the period of confrontation. Initially, as indicated by the statements he delivered in Parliament, his intention was to take a tough policy position against Indonesia. Menzies felt confident particularly as he received wide-spread domestic public support for his stand. An opinion poll conducted in October 1963, for example, indicated that 62 per cent of the electorate felt Australia should aid Malaysia in the event of her being attacked by Indonesia, while only 17 per cent opposed such action.[61] Support for his policies increased in the months leading up to the federal election in late 1963. However, after the Menzies government successfully won the federal election, its policy toward Indonesia on the issue of confrontation appeared to change. Australia's initial tough policy was progressively replaced by a policy of graduated response.

The policy of graduated response was a strategic decision by which Australia would be able to avoid direct military battle with Indonesia, but would be able to negotiate at a diplomatic level. At the same time Australia would not necessarily be less responsible in its defence commitment to Malaysia.[62] It was also a policy of dualism whereby Australia, on the one hand, would not lose its good relationship with Indonesia, while on the other hand, it would attempt to reverse Indonesia's policy of confrontation. As it was stated on 25 January 1964 by Sir Garfield Barwick, then Australia's Minister for External Affairs:

> Naturally international relations in such a case [confrontation] can be difficult. But the policy we should follow is clear — it should be a policy of friendship pursued with patience and understanding, and without easy discouragement. At the same time, wherever the vital interests of ourselves or our allies and

[61] *Commonwealth Parliamentary Debate,* House of Rep. Vol. 40, 17 October 1963, p. 1919.
[62] For a wider elaboration see R. Catley, *op. cit.,* pp. 186-267.

> friends are concerned we should be firm and unequivocal, not merely in asserting these interests, but in the indications we give of our intention to maintain them.[63]

At a diplomatic level, Australia demonstrated the policy of graduated response in two major ways. The first occurred during the negotiation of Manila Agreement in 1963 when Barwick had a long discussion with his counterpart, the Indonesian Minister for External Affairs, Socbandrio. Both men were involved in intensive negotiations of policy alternatives to end disagreements. The second was during the visit of Paul Hasluck (who took over Barwick's portfolio in April 1964) to Jakarta in June 1964. As with Barwick, Hasluck's visit was mainly aimed at further negotiating the issue of confrontation. In other diplomatic fora, Menzies repeatedly expressed his arguments for opposition to Indonesia's confrontation policy. When he visited the US, he argued strongly for explicit American support for Malaysia, trying to convince them to increase pressure on Indonesia. Menzies repeated his efforts in the forum of the Commonwealth meeting in London.[64]

On 2 September 1965, Hasluck reaffirmed Australia's policy of graduated response. He argued that Australia's historical development, which was without a violent revolution, made it difficult for that country to understand what Soekarno wanted to achieve through confrontation. Hasluck believed that "a revolutionary leader does find it both easier and perhaps more congenial to continue in the revolutionary phase instead of facing the new and immense difficulties of

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[63] Sir Garfield Barwick, *Current Notes on International Affairs,* Vol. 35 no. 1, 1964, p.19.
[64] R. Catley, *loc. cit.*

reconstruction." However, Hasluck argued that for the mutual benefit of Indonesia and Australia, Indonesia should be integrated, well-governed and engaged in relations with neighbouring countries in the region.[65] Despite a limited war which occurred when Australian troops fought Indonesians along the Sarawak border in North Kalimantan,[66] there was no major battle between the two countries during the confrontation period. This has sometimes led to a perception that the policy of graduated response was successful, that it largely achieved its main objectives of avoiding direct military confrontation with Indonesia while allowing some room for diplomatic negotiations.

Such a perception, however, is open to question. Indonesia's confrontation policy came to an end after the demise of the Soekarno government following the abortive coup in September 1965. Indeed, Soekarno's confrontation policy never had the full support of the Indonesian army as had the West Irian case.[67] Following the fall of Soekarno and with the support of the military, President Soeharto effectively took over the government. Later, the Soeharto government was not interested in pursuing a confrontation policy. The question of the success of the policy of graduated response must be assessed in the light of the changes within the Indonesian government.

The policy is even more significant when its military aspect is analysed. Prior to the 1963 federal election, the Menzies government purchased F-111 bombers, which, according to rumours, were aimed at anticipating Soekarno's movement to the

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[65] Paul Hasluck, *Current Notes on International Affairs*, Vol. 36 no. 9, 1965, p. 543.

[66] David Horner, "The Australian Army and Indonesia's Confrontation with Malaysia," *Australian Outlook*, Vol. 43 no. 1, April 1989, pp. 61-76.

[67] Hidayat Mukmin, *TNI Dalam Politik Luar Negeri, Studi Kasus Penyelesaian Konfrontasi Indonesia-Malaysia*, Jakarta, Pustaka Sinar Harapan, 1991; and also Amry and Mary Belle Vandenbosch, *Australia Faces Southeast Asia: The Emergence of Foreign Policy*, Lexington, University of Kentucky Press, 1967.

communist side, and were intended to give Australia the capability to bomb Jakarta should Soekarno continue with confrontation policy.[68] The rumours seemed to be confirmed when Australia's 1964 Cabinet papers were released in January 1995. They revealed that in November 1964 the Australian Prime Minister, Robert Menzies, had agreed to several military plans being formulated in response to Indonesian activities. However, these plans, namely the Spillikin Plan, the Hemley Plan, the Shaltone Plan, and the Addington Plan, did not involve just Australia; they included British and New Zealand government co-operation. The Spillikin Plan and the Hemley Plan were proposed in 1963 while the Shaltone Plan and the Addington Plan were formulated in 1964, but all were in part a response to Soekarno's confrontation policy.[69] The Spillikin Plan was aimed at protecting the rich oil fields of Sabah and Sarawak. According to the plan, if it should became necessary, 12 commonwealth battalions, supported by two air craft carriers, would be deployed to protect the area, particularly the sea lanes and air fields in Sabah and Sarawak. Similarly, in anticipation of an attack by Indonesia over Singapore and the western part of Malaysia, the Hemley Plan involved joint co-operation of the air forces and navies of Britain, Australia, and New Zealand, to repel Indonesia. The plan projected that in such an attack, Indonesia's forces would be destroyed within seven days.

In 1964, Indonesia stepped up its "Crush Malaysia" campaign. On 17 August of that year, the Indonesian navy landed a few men on Pontian, North of Singapore, and on 2

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[68] Harvey Stockwin, "A Neighbourly Nod," *Far Eastern Economic Review,* March 5, 1973, p. 15; and Bruce Grant, *The Crisis of Loyalty, A Study of Australian Foreign Policy,* Australia, Angus and Robertson, 1972, p. 83.

[69] "Britain planned to bomb Indonesia, documents say," *Jakarta Post,* 3 January 1995; and "Australia Pernah Berencana Membom Pangkalan AURI," *Kompas,* 3 January 1995.

September, two Indonesian Hercules aircraft passed over Malaysia's territory and dropped about 50 troops into Labis. Australia reacted quickly by moving one of its two air attack squadrons to Darwin and putting its radar unit there on constant alert. Together with Britain and New Zealand, Australia then quickly concluded the Shaltone and the Addington Plans, the former aimed at attacking small islands belonging to Indonesia in the Malacca Straits. The Addington Plan was a much larger exercise and gave Australia a major role. Its strategy was to attack the Indonesian air force which comprised of 540 jets and bombers, many acquired from the Union Soviet. For these purposes, Australia, Britain, and New Zealand would use 170 aircraft from the two main bases, at Darwin in Australia and at Butterworth in Malaysia. The forces in Darwin would target Indonesian bases in Morotai, Biak and Ambon (eastern part of Indonesia), while those in Butterworth would be directed to Pekanbaru and Medan (western part of Indonesia).

As mentioned previously, the confrontation policy was abandoned by the Soeharto government soon after it came to power and consequently none of the military plans formulated by Australia were put into action. However, the release of the Cabinet papers on the issue have made the nature of the policy of graduated response much clearer. As well as confirming the rumours around Menzies' plans for the newly-purchased bomber jet aircraft, they also shed light on the hidden activities around the policy of graduated response.

In summary, Australia's policy reaction to Indonesia's confrontation was triggered by the combination of several factors including the inadequacy of Australian defence forces and Australia's desire to avoid complications between West Irian and

East New Guinea. Australia's reactions was heightened by the uncertain policies adopted by the US and the Britain.[70] On 11 August 1966, confrontation policy formally ended following the conclusion of a peace treaty between Tun Abdul Razak and Adam Malik representing Malaysia and Indonesia respectively. In the same month, Australia's Minister for External Affairs, Paul Hasluck, visited Indonesia and had a meeting with Malik, then Indonesian Minister of Foreign Affairs. Following that meeting, Malik was quoted as saying that the relationship had 'cleared-up'.[71]

[70] B. D. Beddie, *op. cit.*, p. 133-4.

[71] Amry and Mary Belle Vandenbosch, *op. cit,* p. 107; and Mochtar Lubis, "Report from Indonesia," *Current Affairs Bulletin,* Vol. 41 no. 3, 1968, pp. 35-47.

CHAPTER TWO

THE POLITICS OF AID, 1966-86

Cementing New Foundations

When President Soeharto's New Order government came to power, it was immediately supported by Australia. Australia was of the view that the new government was strongly anti-communist and was inclined to work with the West in restoring order to Indonesia's chaotic economy. Soeharto's strenuous efforts in pursuing 'aid diplomacy'[1] towards major Western countries and Japan particularly fed this view. Furthermore, Australia was convinced that the new government was committed to a low-key, unassertive foreign policy, and that it preferred to give priority to regional stability by pursuing 'good neighbourly' relations with countries nearby.[2] All these indications, nonetheless, were in line with the main objective of Australia's policy of graduated response. Since that time, the objective of enhancing the relationship has become the basis for Australia's approach to the politics of aid to Indonesia.

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[1] Usha Mahajani, "Indonesia's New Order and the Diplomacy of Aid," *Australian Outlook,* Vol. 21 no. 2, 1967, pp. 213-34.

[2] J. A. C. Mackie, "Australian-Indonesian Relations," *Current Affairs Bulletin,* 1 October 1976. On 11 August 1966, a peace treaty with Malaysia was signed, ending the policy of confrontation and opened the way to establish ASEAN (the Association of Southeast Asian Nations) on 8 August 1967.

Australia clearly indicated its enthusiasm to help Indonesia address the economic chaos left by the previous government. When Indonesia held negotiations with major western creditors in Tokyo and Paris in 1966, Australia sent its own observers, and later, in 1967, when these creditors established the then IGGI (the Inter Governmental Group on Indonesia), Australia joined the organisation.[3] The IGGI was an economic consortium which worked under the auspices of the World Bank and which focussed its activities on the co-ordination, contribution and management of financial support for Indonesian economic development.[4] It was reported that in the early days of establishing IGGI, Australian diplomats played a significant part in its efforts. During the IGGI's regular meetings between 1967 and 1970, Australian and Dutch diplomats "lent the most sympathetic support to the Indonesian delegation's request for sufficient economic aid." As a result, in 1966 Indonesia received its first emergency credit from the IGGI worth $170 million. The credit continued to rise every year thereafter, in 1967 to $190 million, then increased to $350 million in 1968, $500 million in 1969, and further up to $600 million in 1970. As well as participating in the IGGI, Australia also provided direct bilateral aid. In 1966 Australia provided an initial emergency grant which was worth $0.5 million and also made a gift of rice which was worth $0.2 million, and committed itself to increasing the grant each fiscal year. In 1967/68 this aid was worth $5.2 million, rising to $12.7 million in 1968/69, and to $15.0 in 1969/70. Table 2.1 summarises Australia's general aid to Indonesia from 1966 to 1970. In April 1970 Australia

[3] Andrew J. MacIntyre, "Australia-Indonesia Relations: Towards a More Stable Footing," in David Anderson, ed., *Australia and Indonesia, A Partnership in the Making*, Sydney, Pacific Security Research Institute of Institute of Public Affairs, 1991, p. 52.

[4] IGGI members included the US, the UK, Japan, Germany, France, the Netherlands, Canada, Belgium, Denmark, New Zealand, Australia, and Italy.

announced an expansion of the aid program, with an aid-grant worth $53.8 million for three fiscal years, 1970/71-1972/3.[5]

Table 2.1

Australian Aid to Indonesia 1966-1972 ($A'000)

	1966-1967	1967-68	1968-69	1969-70	1970-71	1971-72
S. Aid	-	4,750	5,920	7,880	7,721	9,949
E. D. Aid	9,170	400	1,200	1,550	2,286	2,683
Food Aid	-	-	3,540	4,000	4,178	4,275
T.A. Aid	6,640	820	840	1,200	1,327	911
Total Aid	15,810	5,970	11,500	14,630	15,512	17,818

Sources: Adopted from David Petitt, "Australian Aid to Indonesia," in David Petitt ed., *Selected Readings in Australian Foreign Policy*, (Australia; Sorrett, 1970), p. 139.

The decision to increase aid, was part of Australia's effort to improve its relationship with Indonesia. A good relationship was in Australia's interests because a friendly Indonesia would be strategically important to contain any communist threat, while a stable and healthier Indonesian economy would increase Australia's future export market. This view of Indonesia had bipartisan support. The Opposition, Australian Labor Party (ALP) went even further. Its deputy leader, Gough Whitlam, argued, after visiting Jakarta in 1966, that Indonesia deserved to receive more aid to improving its infrastructure, especially since curbing an attempt coup by communists in 1965. Whitlam maintained that, if the communists succeeded in controlling

[5] H. W. Arndt, "Australian Economic Aid to Indonesia," *Australian Outlook*, Vol. 24 no. 2, 1970, p. 130-2.

Indonesia, Australia might be forced to increase spending to maintain its security interests.[6]

The initial aims of Australia's politics of aid appeared to be successful. Aid enabled Indonesia to plan economic development with the confidence that finance would be available. As a result, Indonesia was able to successfully stabilise its economy and attract a substantial level of foreign investment. At the same time, Australia's trade exports to Indonesia started to increase (Table 2.2), marking a renewal of economic activities. Most importantly, however, aid and its trade benefits established a base from which both countries formed a new relationship.

Table 2.2

Australian Trade With Indonesia, 1967-1972 ($A'000)

	1967-68	1968-69	1969-70	1970-71	1971-72
Aid Finance Export	4,697	8,949	11,075	11,546	14,356
Non Aid Export	9,173	11,716	24,191	27,530	42,896
Export to Indonesia	13,870	20,665	35,266	39,076	57,250
Imports of Indonesia	55,430	59,956	48,882	22,523	14,312
Balance of Trade	-41,560	-39,291	-13,616	+5,007	+42,939

Sources: Department of Trade and Industry, Canberra, November 1972, cited in David Petitt, ed., *Selected Readings in Australian Foreign Policy,* Australia; Sorrett Publishing, p. 142.

The new relationship was strengthened by the increasing trend of personal contacts between top elites. When Prime Minister John Gorton visited Indonesia in

[6] Philip J. Eldridge, *Indonesia and Australia: The Politics of Aid and Developments Since 1966,* Monograph No. 18, Canberra, Development Studies Centre, the Australian National University, 1979, p. 10.

July 1968, he suggested that the two countries might improve their relationship by embracing a non-aggression pact. Keen to maintain Indonesia's policy of non-alignment, President Soeharto politely refused Gorton's proposal.[7] The two leaders, however, did sign a cultural agreement which among other matters addressed the nccessity of awareness

> ... of the need for widening the mutual understanding and respect of the diverse peoples and nations of the Asian and Pacific regions, [r]ecognising that history and geographical propinquity have presented Australia and Indonesia, as countries of widely different cultural background, with unique opportunities for learning from each other, ... [both] should have a deeper understanding of the character, history and culture of the other, [both are] convinced that as close neighbours each has a clear interest in promoting friendship and goodwill and in fostering the welfare and development of the other.[8]

The agreement signalled a rising and shared perception by both countries of the need to recognise cultural differences and the importance of efforts to readjust policies which would take such differences into account. It is important to note that this was the first cultural agreement to be signed between Australia and any country in Southeast Asia.

In February 1972, President Soeharto paid a return visit to Canberra. During the visit he publicly announced the need for Australia and Indonesia to institutionalise annual consultations, which would thus allow both sides to have a permanent mechanism for discussing matters of common concern and for the exchange of views

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[7] J. A. C. Mackie, "Indonesia and Australia," in H. G. Gelber, ed., *Problems of Australian Defence*, Oxford, Oxford University Press, 1970, p. 46.

[8] *Current Notes on International Affairs*, Vol. 39 no. 6, June 1968, pp. 269-70.

on regional and bilateral matters.[9] Soeharto also recognised the significance of Australia's economic aid to Indonesia. He acknowledged Australia's role in providing aid in the form of grants through IGGI and through the energetic spirit of Australia's businessmen investing in Indonesia. The promised benefits, he said, had given Indonesia the greatest encouragement in improving economic development.[10] In July 1972, the Australian Prime Minister, now William McMahon, visited Jakarta. The bilateral visits led to the signing of an agreement defining the seabed boundary between north-west Australia and Indonesian Timor on 9 October,[11] a precursor to the Timor Gap Treaty of 1989. As the governments' relationship became closer, it was reflected in the development of defence collaboration. This began with informal defence cooperation in 1969, in which Australia committed to providing training opportunities for Indonesian officers in Australia's military training facilities. In 1971, a formal intelligence sharing arrangement between the Indonesian intelligence body, BAKIN, and its counterpart in Australia were established.[12]

Enhancing the Relationship

On 2 December 1972, the Australian Labor Party (ALP) won government and Gough Whitlam was sworn in as Prime Minister on 5 December 1972. Whitlam brought a wide agenda for change in Australia, and foreign policy was no exception.

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[9] John Ingleson, "South-East Asia," in W. J. Hudson, ed., *Australia in World Affairs 1971-75,* Sydney, George Allen & Unwin, 1980, p. 285.

[10] *Current Notes on International Affairs,* Vol. 43 no. 2, 1972, p. 40.

[11] Philip J. Eldridge, *op. cit,* p. 287. An in depth study of how this agreement evolved until 1985, see Andrew Mills, "Australian-Indonesian Relations; A Study of the Timor Sea Maritime Delimitation," Honours Thesis, Politics Department, the University of Adelaide, 1986.

[12] Munster and Walsh, *Secret of State,* Australia, Angus and Robertson, 1982, pp. 57-9, quoted in Andrew Mills, *ibid,* p. 45.

He came to power with the intention of establishing a more independent Australia, of making Australia a more distinctive and well-regarded middle power, which was also committed to tolerance, equality and racial justice.[13] Whitlam was very forceful in formulating Australia's foreign policy, initially retaining the portfolio of Foreign Affairs for himself until he passed it to Senator Willesee in 1974. Thus, the foreign policies of the Labor government between 1972-1975 "were largely shaped, introduced and pressed by Whitlam himself."[14]

Whitlam was determined to build up Australia's relations with Indonesia. His statement, when he was deputy leader of the opposition, that he wanted to see Australia to have close relationship with Indonesia, was soon acted upon, and Indonesia became an important foreign policy focus of the Whitlam government.[15] One outcome was that the politics of aid, begun by the previous Liberal-Country Party (LCP) government, was not only continued but expanded.

In January 1973, a month after Whitlam was sworn in as a new Prime Minister, he announced plans to visit Indonesia, explaining that it was appropriate for him to make his first overseas official visit to Indonesia, not only because of its proximity to Australia, but also because of its size and influence in the region.[16] During the five day visit in February 1973, Whitlam said that he was pleased by the opportunity to renew personal contacts with President Soeharto, as he attached great importance to the

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[13] Peter Wicks, "Australia's Relations With Southeast Asia," in Institute of South-East Asian Studies, *Southeast Asian Affairs 1976*, Singapore, ISEAS, 1976, p. 122.

[14] T. B. Millar, *Australia in Peace and War, External Relations 1788-1977*, Canberra, the Australian National University Press, 1978, p. 408.

[15] Other commitments were Australia's national security, the security and unity of a friendly Papua New Guinea, peace and prosperity of the immediate region, develop and maintain Australia's reputation as a non-racialist country; see Whitlam's address to the Indonesian Parliament, *Australian Foreign Affairs Record*, Vol. 44 no. 1, 1973, pp. 97-100; and also Gough Whitlam, "Australian-Indonesian Relations in 1973," *Australian Foreign Affairs Record*, Vol. 44 no. 3, 1973, pp. 152-58.

[16] *Australian Foreign Affairs and Record*, Vol. 44 no. 1, January 1973, p. 40.

relationship. Soeharto emphasised to Whitlam the importance of Australia's economic aid in Indonesian national development.[17] The outcome of the talk was that the consultation at the elite level was not only continued but also enhanced. Most importantly, this visit facilitated the conclusion of other agreements. The boundary problem between Papua New Guinea —at the time Australia's colony— and West Irian was settled by the signing of an agreement between Australia and Indonesia on 12 February 1973. In November, administrative arrangements over the border were also agreed and signed by the two governments.[18] Whitlam's stated intention to strengthened Australia's relationship with Indonesia was thus quickly and successfully acted upon.

Economically, the relationship also enhanced. In July 1973, Australia agreed to provide civilian aid worth $A69 million to Indonesia.[19] Australia also maintained the *Devisa Kredit* aid scheme until it was abolished in 1974 following serious allegations that the scheme was inappropriately used by Indonesian officials and Australian companies operating in Indonesia.[20] In October 1973, an Investment Guarantee Agreement and Joint Arrangements for Mineral Marketing and Pricing were signed between Indonesia and Australia, the former committing a guarantee that it "would not nationalise or expropriate companies, freeze company funds or block transfer of profits and funds" of the latter out of Indonesia. The agreement also created ways to settle problems arising in relation to matters in the agreement; "if any such action should occur the Export Payments Insurance Corporation (EPIC) was to cover the loss and

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[17] *Ibid,* p. 94-5.
[18] John Ingleson, *op. cit,* p. 287.
[19] *Australian Foreign Affairs Record,* Vol. 44 no. 7, July 1973, p. 457.
[20] Jim Hyde, *Australia: The Asia Connection,* Malmsbury, Victoria, Kibble Books, 1978, p. 112.

via the OECD's International Convention on Investment Disputes resort to arbitration to recover losses from the Australian government."[21]

Another development during this period was the increase in Australia's military aid to Indonesia. A bilateral defence cooperation, signed by Indonesia and the Australia's LCP government in 1969, was renewed and was formalised under the Whitlam government. Under the new agreement Australia agreed to provide military aid worth around $20 million for a three year period.[22] In 1972/3 fiscal year, Australia's military aid to Indonesia was worth $3,763,336; it rose to $5,107,972 in 1973/4, and up to $5,565,405 in 1974/5. At the same time, the number of Indonesian military officers coming to Australia for training during that period increased. In 1971 there were 91 personnel, rose to 240 in 1972, down to 164 in 1973, 141 in 1974, and decreased to 126 personnel in 1975.[23] Within the same period, Indonesia purchased Australian military hardware. In February 1973, 16 former RAAF Sabre jet aircraft were delivered to Indonesia as part of the main element of defence agreement.[24] In the following year Indonesia received one former RAN Attack Class patrol boat, two former RAAF Dakota aircraft, three link instrument flying trainers, three electronic target ranges, and adding field equipment for Indonesia's contingent to UN peacekeeping force to the Middle East. This was followed by another former RAN Attack Class patrol boat, three electronic target ranges, and 261 field radio transceivers in 1974, and a year later four Nomad aircraft, six small patrol boats, and

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[21] *Ibid*, pp. 108-9.

[22] Senate Standing Committee on Foreign Affairs and Defence, *Australia's Defence Cooperation With its Neighbours in the Asian-Pacific region*, Canberra, AGPS, 1984, p. 42.

[23] Laurel Black, "Australian Policy Towards East Timor," Honour Thesis, Politics Department, the University of Adelaide, 1977, p. 30.

[24] *Australian Government Digest*, Vol. 1 no. 1, December 1972-March 1973, p. 129; and Vol. 1 no. 2, April-June 1973, p. 549.

dental equipment were delivered to Indonesia.[25] Personnel were also supplied by Australia to train Indonesian troops and to maintain equipment.

This close relationship, however, did not progress without criticism. Some critics questioned the effectiveness of Australia's economic aid, claiming that it was more about diplomacy, and less meaningful in terms of accelerating general development. They particularly questioned whether this aid could produce a sustained and effective improvement in the living standards of the people in Indonesia. They pointed to the lack of consideration of various social variables in Australia's policy of aid, and maintained that aid to Indonesia was aimed to political and diplomatic ends rather than genuine development.[26] Critics also questioned Whitlam's close relationship with Soeharto. Many, including sections of the press, accused Whitlam of supporting a corrupt military government and "turning a blind eye to administrative corruption and refusing to protest clearly against the continued detention without trial of between 50,000 and 100,000 political prisoners."[27] Critics strongly urged Whitlam to immediately stop military aid and to limit economic aid to Indonesia. There were also critics demanding that Australia should restrict Indonesia's chance to become a member of the Southwest Pacific Association, or at least make Australia's support of Indonesia's membership of the Southwest Pacific Association a condition for

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[25] Laurel Black, *loc. cit;* and *Australian Government Digest,* Vol. 1 no. 3, July-September 1973, pp. 163 and 972.

[26] See for example Philip Eldridge, "Australian Aid to Indonesia: Diplomacy or Development?" *Australian Outlook,* Vol. 25 no. 2, 1971, pp. 141-58; and Philip J. Eldridge, "Australia's Relations With Indonesia; An Alternative Approach," *Australian Outlook,* Vol. 29 no. 1, 1975, pp. 34-52. For the opposite view, see J.A.C Mackie, "Australia's Relations With Indonesia, part I," in *Australian Outlook,* Vol. 28 no. 1, 1974, pp. 3-14; and part II in *Australian Outlook,* Vol. 28 no. 2, 1974, pp. 168-78.

[27] Laurel Black, *op. cit,* p. 34.

Indonesian support for Australia's membership into the Association of South East Asian Nations (ASEAN).[28]

In defending his policy, Whitlam argued strongly that Indonesia was not only important, but that it would continue to be a model for Australia's future policy towards other countries in the region, particularly as those countries faced a common problem of economic development.[29] Whitlam stood firm on his close relationship with Soeharto and it became particularly controversial when the issue of East Timor arose. Indonesia took over East Timor, a former Portuguese colony, in December 1975, a few weeks after Whitlam's dismissal on 11 November 1975, and only a few days before the Australian federal election on 11 December 1975.

Many critics have accused Whitlam of not only failing to prevent Indonesia utilising military force, but of giving a green light to Indonesia to act militarily. In fact, Whitlam had two personal discussions on the matter with President Soeharto: first in Yogjakarta, Indonesia in September 1974, and later in Townsville, Australia in April 1975. During the Yogjakarta discussions, Whitlam reversed the initial policy of supporting self determination for East Timor as advised by the Department of Foreign Affairs. He was reported to have told President Soeharto that "an independent East Timor would be unviable, and a potential threat to stability in South-east Asia," therefore "[i]ntegration with Indonesia was ... desirable but the Timorese should ultimately decide their own future."[30] Referring to information leaked in 1976, one scholar notes that Whitlam in October 1975, "refused to make a public disclosure and

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[28] Philip Eldridge, *Indonesia and Australia: The Politics of Aid and Developments Since 1966*, p. 51.

[29] E. G. Whitlam, *Australian Foreign Affairs Record*, Vol. 44 no. 5, 1973, pp. 339-40.

[30] Alan Renouf, *The Frightened Country*, Melbourne, MacMillan, 1979, p. 443.

to express [his] regret over information that Indonesia was militarily involved in Portuguese Timor," and "[s]trong internal evidence tends to corroborate speculations that during the civil strife on Timor, Whitlam privately communicated to the Indonesians that he would not take umbrage if Indonesia intervened [and] ... he asked the Indonesians not to embarrass his government by intervening in force before an anticipated Australian election."[31]

Initially, the East Timor affair aroused a variety of emotional responses within Australia. The Labor government was divided.[32] At the top, Whitlam and his Foreign Affairs Minister, Senator Willesee, had different views. Whilst Whitlam favoured East Timor to be associated with Indonesia, Willesee preferred self determination. The ALP's right wing mildly support Whitlam, but the left wing totally refused to do so and put its weight behind the self determination option. Paralleling this, the Defence Department had its own sceptical view on how to encourage Indonesia to reverse its policy but it made no formal submission on the matter.[33] The Opposition, the Liberal and Country Party Coalition, though angrily condemning Indonesian military action, provided no firm policies on how to handle the situation. Indeed it signalled an ambiguous policy. The Opposition reiterated that Australia's relationship with Indonesia was its highest priority,[34] but its spokesman on foreign affairs, Andrew Peacock, with the full support of Ian Sinclair, Deputy Leader of the National Party, stated that his side preferred to see Portugal remain in control of East Timor, and that

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[31] Henry S. Albinski, *Australian External Policy Under Labor, Content, Process and the National Debate,* St. Lucia, Queensland, University of Queensland Press, 1977, p. 110.

[32] Alan Renouf, *op. cit*, pp. 399-451; and Laurel Black, *op. cit,* particularly pp. 78-98.

[33] Henry S. Albinski, *op cit,* p. 108.

[34] *Commonwealth Parliamentary Debates,* House of Representatives, February 25, 1975.

it would be up to the Timorese to determine their own future. In several occasions Peacock met Fretilin leader, Jose Ramos Horta.[35]

As a matter of fact, the dismissal of the Whitlam government in November 1975 was Australia's most serious political issue which consumed most political attention at that time. Other issues were sidelined and East Timor was no exception. In the federal election on 11 December 1975, the Liberal Party and the National-Country Party were victorious and they formed a new Coalition government. Although the East Timor issue was sidelined for a while after Whitlam's dismissal, it nevertheless then became the most central issue colouring the relationship.

East Timor and the Media's Role

The Indonesian government was aware of the new Australian government's view on East Timor but hoped it would adopt a similar view to its predecessor. This optimism was based on the Coalition's view, shared with Indonesia and expressed when the Coalition was in opposition, that Fretilin, the Left wing East Timorese movement for self-determination, was communist-inspired. However, the situation quickly changed when the new Australian government signalled a different policy perceived by Indonesia as ambiguous especially in the light of their previous position.[36] At the UN, Australia supported resolutions of the Fourth Committee on Decolonisation which stated that the warring parties in East Timor needed to negotiate and a UN mission was necessary to investigate the situation. Most importantly the

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[35] James Dunn, *Timor, A People Betrayed,* Milton, Queensland, Jacaranda Press, 1983, pp. 144-47.

[36] Michael E. Salla, "Australian Foreign Policy and East Timor," *Australian Journal of International Affairs,* Vol. 49 no. 2, 1995, pp. 213-4.

resolution supported self-determination for East Timor.[37] By that time Australia's public demand for the Australian government to support East Timor independence increased. The Australian media, for reasons of the death of six fellow journalist during Indonesian operation in East Timor, was heavily involved in keeping the East Timor issue live. For Indonesia, nevertheless, all these indicated that Australia had an opposite view on the East Timor issue.

Indonesia reacted angrily to the development of Australia's position. The Indonesian Foreign Minister, Adam Malik, accused Australia of trying to help Fretilin by sending small arms to East Timor, and to reinforce the message, the government-backed National Youth Committee protested and demonstrated outside the Australian Embassy in Jakarta. The anger mounted after it became apparent that in 1976, Australia had once again voted against Indonesia in the UN on the issue of East Timor. At about the same time, Malcolm Fraser, Australian Prime Minister, introduced an import protection policy aimed at middle level manufactured products such as textile, clothing and footwear. Indonesia, and other ASEAN countries, which had enjoyed exporting such products, were extremely irritated at the decision. They felt that Australia was refusing to provide a market outlet for the very industries which Australia once helped develop through providing economic aid.[38] Fraser's protection policy, nevertheless, added to Indonesia's anger to Australia's policy over East Timor.

Fraser realised that the situation could jeopardise the whole relationship, and this had to be avoided. Eventually he was of the view that to maintain the relationship with Indonesia, his government needed to give some kind of concession in policy, and

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[37] Nancy Viviani, "Australians and the Timor Issue: II," *Australian Outlook,* Vol. 32 no. 3, 1978, p. 241.

[38] *Ibid.*

in this matter maintaining economic aid was a strategic option. When Andrew Peacock, the Minister for Foreign Affairs, visited Jakarta in April 1976, Australia approved a three-year program of economic assistance which was worth $86 million, an increase of $17 million of the previous three-year package. During the same visit agreement was reached on a three-year defence cooperation program under which Australia provided $25 million.[39] In defending the decision to maintain economic aid, Peacock stated that it was part of Australia's moral and social responsibility, and it indicated Australia's contribution to peace and stable international relations.[40]

Australia's decision to maintain economic aid led to raising hopes within the Indonesian elites that this might be followed by Australia changing its view on the East Timor issue, and this was Jakarta's main expectation when Prime Minister Malcolm Fraser made a trip to Jakarta in June 1976. According to Alan Renouf, a former Secretary of the Australian Department of Foreign Affairs (1974-77), before leaving for Jakarta, "Fraser was briefed to accept the *de facto* incorporation of East Timor into Indonesia," but he refused to take such action fearing that this could cause domestic problems for his government.[41] Indonesia felt deceived and elite figures such as Ali Murtopo expressed their view that the Fraser government was more hostile to Indonesia than the previous Whitlam administration. The outcome was that "the visit merely deepened the legacy of bitterness" between Jakarta and Canberra.[42] However,

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[39] Australian Development Assistance Agency, *Report 1976-77,* Parliamentary paper No. 104, 1979, p. 22.

[40] Andrew Peacock, Second reading Speech on Australian Development Assistance Agency, *Statements,* March-September 1977, p. 2.

[41] Alan Renouf, *op. cit,* p. 167.

[42] Alan Renouf, "Australian Diplomacy 1976-1980," in P. J. Boyce and J. R. Angel, eds., *Independence and Alliance, Australia In World Affairs 1976-80,* Sydney, George Allen and Unwin, 1983, p. 329.

the Fraser government was not discouraged but decided to continue giving more concessions in policies toward Indonesia. This was particularly the case of Australia's evolving treatment of the issue of East Timor which slowly favoured Indonesia. In early 1977, Australia agreed to close the pro-Fretilin radio transmitter in Darwin, and agreed to provide relief aid to East Timorese through the Indonesian government rather than through the International Red Cross.[43] In the UN, Australia voted to abstain on the issue of East Timor. All these policies, most importantly, led Australia to give *de facto* recognition of East Timor's integration into Indonesia in 1978, and Indonesia happily received the decision.

Undoubtedly, by giving recognition Fraser was 'successful' in maintaining the stability of the relationship between Australia and Indonesia. However, his concessional policy towards Indonesia was widely criticised in Australia. The left wing of the ALP and the Australian Council for Trade Unions (ACTU) condemned it and strongly demanded that Australia stop providing military assistance to Indonesia, since it might be used in a military operation in East Timor. In short, Fraser's concessional policy towards Indonesia did not stop public criticism over the issue of East Timor. Indeed, criticisms over Indonesia's position on the East Timor issue, with considerable support from the Australian media, increased.

This unfortunately annoyed Jakarta which believed the involvement of the Australian media very much discredited Indonesia. In responding to this, the Indonesian government refused to renew a visa for Warwick Beutler, Radio Australia's Jakarta correspondent, an incident which led to the closure of the

[43] J. R. Angel, "Australia and South-East Asia," in *ibid,* p. 239.

Australian Broadcasting Commission office in Jakarta in the middle of the same year. In 1981, a similar incident occurred with the *Age-Herald's* only correspondent in Jakarta, Peter Rogers. The relationship clearly worsened as it was summarised by two observers, that "the combination of the official Australian position, ... and the non-governmental criticism of Indonesian throughout the period from 1975 to 1980, caused Australia to emerge as Indonesia's most vocal critic" which deteriorated the relationship more sharply.[44] Nonetheless, when the relationship was deeply embroiled in the East Timor issue between 1976 and 1982, economic aid played a significant role in helping the Australian government to retain diplomatic and political influence in Indonesia.[45]

When the Bob Hawke-led Labor government was elected to office in 1983, Indonesia watched carefully. This was because Hawke was a former ACTU President who had once criticised Fraser's policy of recognising Indonesia's incorporation of East Timor and had demanded a stop to military assistance to Indonesia. Hawke was not the only critic. Bill Hayden, Hawke's first Minister for Foreign Affairs and former Labor Leader, had taken a similar position, when, in 1978, while Opposition leader, he stated that, "Indonesia's occupation of East Timor is unjustifiable, illegal, immoral and inexcusable and recognition inconceivable."[46] Indonesian suspicion was heightened by the fact that since its 35th National Conference in 1982, the ALP already had adopted East Timorese self determination as part of its platform; stating clearly that it rejected the Australian government's recognition of the Indonesian annexation of East Timor,

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[44] P. J. Boyce and J. R. Angel eds., *op. cit.*, pp. 40-1.

[45] Stephen Harris, "Aid to Indonesia," *World Review*, Vol. 22 no. 1, 1983, p. 41.

[46] Quoted in Geoffrey Gunn, *A Critical View of Western Journalism and Scholarship on East Timor*, Manila, Journal of Contemporary Asia Publishers, 1994, p. 143.

endorsed by the Fraser government.[47] Indonesia also wondered whether the new government would seek to challenge and perhaps reverse the recognition policy endorsed by the former Fraser government five years before. There was an anxiety within the Indonesian government that the incoming Labor government would intensify bilateral irritations, as it would give the Left wing of the ALP more opportunities to confront Indonesia directly regarding East Timor.

Hawke understood the reasons behind the tension which existed between Australia and Indonesia. He confirmed this when he answered a question in Parliament, saying that his government believed that there was apprehension on the Indonesian side about the Labor government's intention regarding the relationship, particularly in the early days of his government.[48] The Hawke government set out to improve mutual understanding and in April 1983 sent Australian Foreign Minister, Bill Hayden, to Indonesia. A series of consultations and discussions were held with Indonesian officials, including with President Soeharto, in which East Timor figured very prominent. In Hayden's last statement during the visit, he indicated that his government realised that Indonesia has incorporated East Timor, but he also expressed Australians' deep concern that "an internationally supervised act of self-determination has not taken place in East Timor."[49] In June 1983 Hawke himself visited Indonesia and held a series of discussions with President Soeharto. Despite some differences, these visits conveyed a similar message – that the Hawke government's position on

[47] *The ALP's 35th National Conference,* Canberra, 1982, p. 81.
[48] *Commonwealth Parliamentary Debates,* House of Rep., Vol. 148 1986, p. 3242.
[49] *Backgrounder,* No. 377, 13 April 1983, p. vi.

Indonesia was similar to his predecessors in that it valued the importance of the relationship.[50]

These visits, apparently, marked the beginning of a progressively shifting position which the Labor government took on the issue of East Timor. It began at the ALP's 36th National Conference in 1984, when, under Hawke and Hayden's influence, the resolution on the East Timor was considerably changed. Although the ALP was still very concerned with the issue, the words, "rejects the Australian government's recognition of the Indonesian annexation of East Timor," endorsed in the 1982 conference, were omitted. The resolution retained its condemnation of Indonesian annexation but failed to explicitly reject the recognition policy endorsed by the previous government.[51] Certainly, the Left wing of ALP was disappointed and reminded Hawke that it was the ALP's policy to advocate the independence of East Timor and to reject Indonesian claims over the Timorese. However, Hawke argued against his critics by "asserting the right of the government to exercise its own judgement and to accommodate Indonesia's position."[52] This position was put again in a radio interview on 25 July 1985, when Hawke finally stated explicitly that "we [Australia] recognise the sovereign authority of Indonesia over East Timor."[53] A year later, this statement was supported and confirmed by the ALP in its 37th National Conference in Hobart.[54]

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[50] Ronald Nangoi, "Hawke's Visit to Indonesia," *Indonesian Quarterly*, Vol. 11 no. 3, July 1983, pp. 3-5.

[51] *Australian Labor Party Platform, Constitution and Rules, as Approved by the 36th National Conference*, Canberra, 1984, pp. 101-2.

[52] Graham Maddox, *The Hawke Government and Labor Tradition*, Ringwood, Victoria, Penguin, 1989, p. 81.

[53] *Backgrounder*, No. 493, 28 August 1985, p. iii.

[54] For full resolution statements see *Australian Labor Party Platform, Constitution and Rules, as Approved by the 36th National Conference*, Hobart, 1986, pp. 143-44.

Retaining the recognition policy however, did not mean the end of irritation on the issue. Some sections of the Australian media continued with the style of bluntly reporting domestic issues, particularly human rights abuses and corruption occurring in Indonesia. The deaths of five fellow journalists in Balibo, East Timor, in 1975, allegedly murdered by Indonesian soldiers, helped fuel opposition to the Australian government's policy. The reporting style of Australian media on Indonesian issues, nonetheless, considerably irritated the Indonesian government. The issue blew up in 1986, following the publication of an article by David Jenkins on the front page of the *Sydney Morning Herald,* which touched on the business and financial interests of President Soeharto's family. Jenkins described the extensive business interests of members and associates of the "First Family." He made an analogy between the Indonesian First Family's fortune with that of the recently deposed President Marcos' family in the Philippines, and went on to narrate how the corrupt Marcos regime was eventually toppled by "peoples' power."[55]

The Indonesian government reacted angrily to the article, arguing it was untrue and calling it a deliberate insult.[56] The repercussions were widespread. In Jakarta, the Indonesian Foreign Minister summoned the Australian Ambassador and in Canberra, the Indonesian Ambassador notified the Australian Minister for Foreign Affairs of Indonesia's serious concern over the publication of the article. On 12 April, the Indonesian Minister for Research and Technology, B. J. Habibie, cancelled his official visit to Australia. He was reported to have been shocked and embarrassed by

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[55] David Jenkins, "After Marcos now the Suharto millions," *The Sydney Morning Herald,* 10 April 1986, p. 1; and also David Jenkins, "The Quiet, Bald Moneymaker of Jakarta's Elite," *The Sydney Morning Herald,* 10 April 1986, p. 7.

[56] Patrick Walters, "Article not true, says Indonesia," *The Sydney Morning Herald,* 14 April 1986, p. 1.

the publication of Jenkins' article, and as a protest to the Australian government, he cancelled his scheduled official trip[57] The cancellation put an end to plans for a joint Indonesian-Australian Aerospace Corporation, a result that was deeply regretted by the Australian government.[58] Two days later, another hard-hitting decision was taken by the Indonesian government. It refused to grant entry visas to any Australian journalist, or to extend working visas for the journalists of the Australian Associated Press who were posting in Indonesia at the time.[59] Indonesia even banned nine Australian journalists who were to cover the summit meeting between then US President Ronald Reagan and President Soeharto in Bali.[60] The rift extended to journalists organisations. On 17 April, the Indonesian Journalists Association (*PWI; Persatuan Wartawan Indonesia*) expressed its great displeasure to it's counterpart in Australia, the Australian Journalists Association.

The row worsened. Indonesia decided to postpone, indefinitely, negotiations with Australia on the seabed boundary in the Timor Gap, negotiations which had been on-going since 1972.[61] The Australian government retaliated on 21 April 1986 by unilaterally withdrawing landing rights for Indonesian traditional fisherman on islands

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[57] Michael Byrnes, "Indonesian Minister cancels trip after newspaper article," *Australian Financial Review,* 14 April 1986, pp. 1, 4; and Michael Byrnes, "Dr. Habibie shocked, embarrassed," *Australian Financial Review,* 15 April 1986, p. 2.

[58] *The Commonwealth Parliamentary Debates,* House of Rep., Vol. 148, 1986, pp. 2179-80; and also "Hayden 'regrets' cancelled visit by Indonesian," *The Australian,* 14 April 1986, p. 1.

[59] Patrick Walters, "Journalists face Indonesian ban," *The Sydney Morning Herald,* 15 April 1986, pp. 1, 14; Mark Baker, "Indons Ban media over graft claim," *The Age,* 15 April 1986, p. 1; and Ross Peake, "Indonesia orders more media bans after insult," *The Australian,* 15 April 1986, p. 1, 2.

[60] The nine journalists were John Lombard, Ian R. Mackintosh, Phua Tin Tua (the three from ABC radio), Cameron L. Forbs (*The Age*), Bruce L. Dover (*The Herald*), Michael A. Richardson (*International Herald Tribune),* Michael R. Byrnes (*Australian Financial Review*), Leigh Mackay and Dallmeyer (both from AAP), see Michael Byrnes, *Australia and the Asia Game,* St. Leonards, New South Wales, Allen & Unwin, 1994, p. 258-9; and "Indonesia Bans Australian Reporters from Bali Talks," *Canberra Times,* 15 April 1986, p. 8.

[61] Michael Byrnes, "Jakarta freezes border talks," *Australian Financial Review,* 17 April 1986, p. 1, 4.

in the Ashmore Reef in the Timor Sea.[62] The day after, Indonesia abruptly cancelling visa-free entry for Australian tourists and imposed controls at every Indonesian international airport. As a result, around 180 Australian tourists were stranded at Ngurah Rai airport, Bali. Many of them were shocked and expressed anger at the decision, particularly as they were forced to relinquish their planned holidays and return to Australia.[63] At Polonia airport in Medan, Sumatra, four Australian tourists were forced to fly back to Kuala Lumpur in Malaysia due to their visa cancellation. On the same day, John Martin, an Australian pilot flying a new Australian aircraft from Colombo, Sri Lanka, and who was in transit at Polonia airport faced intense interrogation before he was allowed a night's stop over.[64]

The Australian Ambassador lodged an official objection about the visa cancellations with the Indonesian Foreign Affairs Department, arguing that Indonesia had punished innocent tourists. In Canberra, the Australian Minister for Foreign Affairs summoned the Indonesian Ambassador to explain the latest decision.[65] After intensive negotiations, Indonesia reversed the tourist visa cancellation on 24 April, only a day after its imposition. The speed of the reversal was due in large part to the Indonesian Minister for Foreign Affairs, then Mochtar Kusumaatmadja, who played a

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[62] John Hurst, "A Clash of Culture; Indonesia and the Australian Media," *The Australian Quarterly,* Spring and Summer 1987, p. 349.

[63] John Lyons, "Jakarta Expels 192 Australian tourists on Bali," *The Australian,* 23 April 1986, p. 1; Anna Grutzner, "Visa Curb on Bali Visitors," *Canberra Times,* 23 April 1986, p. 1; Michael Byrnes, "Tourists: Jakarta's Latest Target," *Australian Financial Review,* 23 April 1986, p. 1, 4; Anthony Nagy, "Tourists Stranded in Bali," *The Age,* 23 April 1986, p. 1; and "Indonesia Visa Clamp: Australian Tourists Stranded," *The Sydney Morning Herald,* 23 April 1986, p. 1.

[64] *Tempo,* 3 May 1986, "Siapa Dilarang Masuk?"

[65] Anthony Nagy, "Envoy Puts on Bold Front in Visa Shuffle," *The Age,* 24 April 1986.

moderate but calculated diplomatic role. He argued that the visa cancellation, particularly for tourists, would not help to the overall relationship.[66]

The reversing of the visa cancellation, however, did not end the row. A number of Indonesian ministers became involved in criticising not only the publication of Jenkins' article but in a more general critique of the Australian government's relationship with its media. The Indonesian Minister for Information, Harmoko, described that Jenkins' model of journalism, very emotively, as "alcohol journalism" and far from truthful.[67] The Head of the Indonesian Armed Forces, then General Benni Moerdani, described Jenkins' article as evidence of a smear campaign, an insult against the Head of State, and an attempt to interfere in Indonesian internal affairs.[68] In addition, Moerdani was also reported to have said that Australia's defence aid was not very significant (he described it as "chicken feed"), and that he would reject the prospect of future defence co-operation.[69] The coverage of the arguments between Australia and Indonesia widened in Australia's media. In several major newspapers, *The Sydney Morning Herald, The Age, Australian Financial Review, The Australian,* and *Canberra Times,* stories about the row almost always featured on the front page.

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[66] Michael Byrnes, Greg Earl, and Tony Grant-Taylor, "Indonesia backs down as moderates prevail," *Australian Financial Review,* 24 April 1986, p. 1, 4; Patrick Walters, "Indonesia visa back-off," *The Sydney Morning Herald,* 24 April 1986, p. 1, 4; Anna Grutzner, "Turnabout on visa decision," *Canberra Times,* 24 April 1986, p. 1; Anthony Nagy and Damien Murphy, "Jakarta backs down on visas," *The Age,* 24 April 1986, p. 1, 6; and John Lyons, "Jakarta Power Play Behind 24-Hour Visa Ban," *The Australian,* 24 April 1986, p. 1-2. For Mochtar's comment see *Tempo,* 3 May 1986.

[67] "Menpen Harmoko: Tulisan Jenkins—Jurnalisme Alkohol," *Merdeka,* 22 April 1986.

[68] Yang Razali Kassim, "Row Over Sydney Morning Herald Articles—Murdani Blasts Aussie paper," *The Strait Times,* 22 April 1986; and see also "Soal Berita Koran Australia itu," *Tempo,* April 1986.

[69] Richard Robison, "Explaining Indonesia's Response to the Jenkins Article: Implications for Australia-Indonesia Relations," *Australian Outlook,* Vol. 40 no. 3, 1986, p. 32; Leigh Mackay, "Indons threaten to reject Aid," *The Age,* 22 April 1986, p. 1, 8; and Michael Byrnes, "Jakarta dumps Australia's military deals," *Australian Financial Review,* 22 April 1986, p. 1, 4.

On many occasions, articles strongly critical of the Indonesian government's position appeared. Often, the authors of the articles put forward a very cynical view of the official position the Australian government had taken over the row and statements made by the Prime Minister Hawke, for example, were often sensationalised by using derogatory expressions.[70]

The uproar went even further when a series of articles, identifying and describing several rather negative aspects of Australia, were published in *Harian Umum Angkatan Bersenjata,* a newspaper of the Indonesian Armed Forces. Articles stressing Australia's feeling of isolation, racism in Australia especially in relation to the White Australia Policy, its attitude toward its Aboriginal people, Australia's arrogant habit of interference, and its culture of gossip, and the possibility of an Australian threat from the South were all featured.[71] Given that the articles were published in the newspaper belonging to the armed forces, while other respected Indonesian newspapers, such as *Kompas* and the then *Sinar Harapan,* did not print stories of this sort, it seems certain that these articles were designed deliberately as a pay-back. They were published to counter Australia's media reports and to demonstrate, possibly, to the Australian public how Indonesians felt about the

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[70] See for examples, Blanche D'Alpuget, "To only see through their eyes," *The Sydney Morning Herald,* 28 April 1986, p. 1; Peter Hastings, "Who feels culturally sensitive?" *The Sydney Morning Herald,* 28 April 1986, p. 12; Peter Bowers, "We can do very well without you Indonesia," *The Sydney Morning Herald,* 3 May 1986, p. 27; Jim Dunn, "Talking stright about Indonesia," *Canberra Times,* 22 April 1986, p. 6; John Short, "Hawke signals Suharto that the gloves are off," *The Australian,* 25 April 1986, p. 2; Gregory Hywood, "PM warns Indonesia: no more grovelling," *Australian Financial Review,* 5 May 1986, p. 1, 4; and Michelle Grattan, "Hawke says his government will not have a grovelling relationship with Indonesia," *The Age,* 5 May 1986, p. 1.

[71] See "Australia di Simpang Jalan," editorial, *Angkatan Bersenjata,* 14 April 1986; Wahyono S. K., "Australia dan Persepsi Ancaman Dari Utara," *Angkatan Bersenjata,* 21 and 22 April 1986; Nur H. D., "Budaya Gosip: Tanggapan Atas Ajakan Menteri Imigrasi Australia," *Angkatan Bersenjata,* 29 May 1986; and Arman Latif, "Ancaman dari Selatan," *Angkatan Bersenjata,* 2 June 1986.

Australian media's reports on Indonesia. Nonetheless, the articles showed the degree to which the Indonesian government, or at least the armed forces, regarded Jenkins' article as an insult to the Head of State.

As well as the Indonesian elite's argument, that Jenkins' article was an insult to the Head of State, its timing also contributed to the mounting anger of the Indonesian government. Firstly, it was published when Indonesia was still suspicious of Australia's new military plans, following the release of Dibb Report in the early 1986. Indonesia was concerned because the report stated, among other things, that because of its proximity to Australia, Indonesia "is the area from or through which a military threat to Australia could most easily be posed."[72] Indeed, some of the elite in Jakarta tended to see suggestions by the Dibb Report as indicative of Australia's unfriendly attitude.[73] This had raised sufficient concern in the Australian government for Kim Beazley, the Defence Minister, to visit Indonesia in early March 1986, a month before the Jenkins affair. The visit, during which Beazley spent six days holding talks with Indonesian officials, was believed to be an effort to convince Indonesia not to worry if Australia developed a new military strategy as suggested by the Dibb Report. In particular, Beazley expressed Australia's official view, that it did not regard Indonesia as a security threat, but recognised that a strong Indonesia would be helpful to Australia's defence interests.[74]

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[72] Paul Dibb, *Review of Australia's Defence Capabilities,* Report to the Minister for Defence, Canberra, AGPS, 1986, p. 48.

[73] Paul Kelly, "Indonesians soothed ahead of Dibb report," *The Australian,* 9 April 1986, p. 1; and also "Peningkatan Pertahanan Australia Tak Usah Dilihat Sebagai Sikap Tidak Bersahabat," *Kompas,* 28 March 1988.

[74] Leigh Mackay, "Jakarta no threat to us: Beazley," *Australian Financial Review,* 2 April 1986, p. 9; and Michael Byrnes, "Beazley hints at 'misunderstandings'," *Australian Financial Review,* 7 April 1986, p. 10.

Secondly, Jenkins' article was published during the fourth Australian-Indonesian Conference (9 - 11 April 1986) in Jakarta. This involved not only academics, journalists, business groups, and political scientists, but also diplomats and politicians from both countries, and one of the most significant topics for discussion was the state and strength of the Australia-Indonesia bilateral relationship. This topic was discussed both formally and informally, and indeed the role of the media in the relationship was the most hotly argued issue.[75] Thus, Jenkins' article was clearly going against the trend. It was published while others were trying hard to think of how to enhance and further develop relations. It was understandable that some sections of the Indonesian elites regarded it as a deliberate effort to disturb the bilateral relationship of Australia and Indonesia.

In short, the "Jenkins affair" has been one of the most bitter moments in the history of Australia-Indonesia relations. The turmoil it created revealed that cultural differences between the two countries had been the main impediment in developing and managing the overall relationship. In this case, media's function and the relationship between government and media was an issue. It also demonstrated the prevailing fragility of the bilateral relationship. The case also revealed the extent to which Jakarta actually valued and regarded Australia's position within Indonesia's foreign relations. Its immediate decision to either postpone or threaten to stop various bilateral cooperation projects indicated that Australia was not among Indonesia's primary considerations. This was demonstrated, for example, when *Washington Post* and *New York Times* published a story similar to Jenkins one week later, Jakarta did

[75] "Australia as a Neighbour," *The Jakarta Post,* 14 April 1986.

not react so sensitively as it regarded the US far more powerful than Australia – and beyond its influence.

In summary, this chapter has indicated that the relationship of Australia and Indonesia between 1966-86 was slightly improved compared to the previous era. This was partly due to decision of successive Australian governments to pursue "the politics of aid approach" to Indonesia, by which it lifted Australia's importance to Indonesia. However, the style of the relationship still remained narrow; it tended to be dominated by the issue of East Timor and the Australian Media's reporting of Indonesia. The Jenkins affair was one of the most bitter example. However, all of this presented Australia and Indonesia with a new challenge for developing their future relationship.

PART TWO

BALANCE OF POWER AND ECONOMIC ISSUES IN THE 1980S

CHAPTER THREE

THE SHIFTING BALANCE OF POWER AND THE EMERGENCE OF ECONOMIC ISSUES

This chapter is about the shifting priority of global issues from geo-politics to geo-economic in the 1980s. The theme is explored as the basis for an understanding of the next two chapters on Indonesia's and Australia's foreign policies.

The geo-political and ideological rivalries between the US and the USSR can be traced back to the end of the Second World War. Victory had made them the world's most powerful nations, as noted by James Lee Ray, so that by the end of 1945 the US was the only country strong enough to pose a threat to the USSR, and conversely, the USSR the only country with the capacity to resist the US threat.[1] The two nations were not able to sustain the collaboration they had achieved during the war. Cooperation changed to conflict especially in regard to their particular 'spheres of influence' over areas previously occupied by Germany and Japan during the war. In Europe, this ended with the USSR ultimately controlling Eastern Europe. In Asia the conflict between the US and the USSR resulted in the Korean War, in the civil war won by the Communists in China, and in the Vietnam War. During the 1960s, the rivalry strengthened, especially since the USSR was able to rapidly develop its atomic weapons technology following the first successful test in 1949. The outcome

[1] James Lee Ray, *Global Politics*, 4th. edition, Boston, Houghton Mifflin, 1990, p. 56.

of this rivalry was a polarisation of the globe into Eastern and Western blocks. The confrontation was strengthened by the arms race between the two super powers during the period of the Cold War,[2] and in turn it created a structure which became known as the bipolar system. Although the bipolar system was slightly relaxed following a series of negotiations and agreements during *the detente* of the 1970s, it remained in existence until the early 1980s.

Within the bipolar system, the super powers dominated and controlled the dynamic of international politics.[3] The order which emerged from this system "was shaped by, and its major actors organised around, a seemingly irreconcilable antagonism between two opposed social systems apparently dedicated to the political destruction of the other."[4] For middle-level and small powers, however, the bipolar system meant they were exposed to global, external factors which significantly influenced the formulation of their own foreign policy.[5] Such countries' limited powers required them to have flexibility to adjust to trends within the international system. Their capacity to adjust also determined how much of an impact international influences would make on middle-level and small powers, and what kind of foreign policy they would adopt in response.

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[2] For various aspects of the rivalry see Paul Kennedy, *The Rise and Fall of the Great Powers,* London, Fontana Press, 1989, pp. 480-509; and Henry Kissinger, *Diplomacy,* New York, Touchstone, 1995, particularly pp. 394 forward.

[3] For the structure of the relationship between two dominating super powers, the US and USSR, see Brian Hocking and Michael Smith, *World Politics, an Introduction to International Relations,* Harvester Wheatsheaf, 1990, pp. 239-65.

[4] Michael Cox, "From Detente to the 'New Cold War': The Crisis of the Cold War System," *Millennium: Journal of International Studies,* Vol. 13 no. 3, Winter 1984, p. 265.

[5] Richard C. Snyder, H. W. Bruck, and Burton Sapin, "Decision-Making as an Approach to the Study of International Politics," in Richard C. Snyder, H. W. Bruck, and Burton Sapin, eds., *Foreign Policy Decision Making,* New York, Free Press of Glencoe, 1962, pp. 14-185; and K. J. Holsti, *International Politics; a Framework for Analysis,* 7th., ed., Englewood Cliffs, N. J, Prentice Hall, 1995, particularly chapter 11.

In the early 1980s, several new and major developments emerged. Ronald Reagan won the US presidential election and came into office in 1981, at that time when there was a strong sense that the US was undergoing a significant decline in its political influence. In the Middle East, in January 1979, the US had lost a significant part of its political influence with the fall of the Shah in Iran, one of its strongest allies since the CIA had been instrumental in restoring him power in 1953. In Latin America, the US was coming to terms with the overthrow by anti-American forces of its long-time ally, Anastasio Somoza in July 1979. Carter's soft approach to the USSR was blamed as the fundamental source of US political decline, an accusation that helped Reagan win the presidential election.

On gaining office, Reagan immediately re-introduced a tough approach to the USSR. He did not hesitate to significantly increase US military budget even though the country was facing a budget deficit. To match the USSR's influence in Central America, Reagan order the invasion of Grenada in 1983 and began to financially support anti-Sandinista elements in Nicaragua. In the same year, Reagan ordered the deployment of medium range missiles in Europe, and went ahead with plans to develop the Strategic Defence Initiative (SDI), the so-called 'Star Wars' proposal. In response, the USSR broke off arms limitations talks with the US and continued its efforts to match the military capacity that the US and its allies had achieved. In supporting its efforts, the USSR had increased its influence in several developing countries including Afghanistan, Angola, Ethiopia, Mozambique, South Yemen, Vietnam, and Cuba. It tried to maintain similar efforts in Eastern Europe, but had to face emerging demands from countries in this region wanting to build their own

identity and to have a more direct say in dealing with the West on economic matters. The unfolding of these events coincided with the rapid political consolidation of communist power in China, a development of which initially concerned the West. The possibility of coalition between China and the USSR was seen by the West as a potential threat. However, China's split from the Soviet's communism and China's urgent need to accommodate its economic growth led it to increase economic interpenetration with Japan and the US.[6]

These trends obviously indicated a change in the structure of international balance of power. It was not easy to judge and to predict, however, where this trend might lead. The Reagan factor (the get-tough approach), at some stage, pushed the two rival blocks into a New Cold War. Stephen Ambrose concluded that at first the achievement of Reagan's tough approach were unclear. It did not enable the US to liberate Eastern Europe, nor was it able to slow arms race, it did not result in a genuine rapprochement with the USSR, and nor was it able to force the USSR out from Afghanistan. The result, Ambrose notes, was a continued Cold War which was highly dangerous and much more expensive.[7] The USSR might be able to match the US militarily but it could not challenge it economically, and if it continued to increase military spending, the USSR would face serious economic difficulties, a case that was later to prove correct.

By the middle of 1980s, the bipolar concentration of power, at least in terms of nuclear weapons acquisition, was still with the US and the USSR. However, both

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[6] Coral Bell, "The Central Balance and Australian Foreign Policy," in Coral Bell, ed., *Agenda for the Eighties,* Canberra, Australian National University Press, 1980, pp. 1-24.

[7] Stephen E. Ambrose, *Rise to Globalism,* 3rd edition New York, Penguin Books, 1983, p. 417.

camps, particularly the USSR, began to become more aware of the potential that massive military expenditure had to ruin their economies. Around this time India, China, Japan, and the European Economic Community (EEC) emerged as other poles of power; Japan and the EEC were even predicted to be able to match or even to lead the US economically. In Europe, the Britain and France already possessed nuclear weapons and had the capacity to develop them further, and German economy was growing quickly. China, following strong political and economic consolidation in the early 1980s, began to show accelerated economic growth and continued to develop as a nuclear power. India, likewise, already had a nuclear technology capacity and was able to built nuclear weapons within a short period if it wished to do so. All of this suggested that the balance of power was in the process of moving from a bipolar toward a multipolar system. Significantly, the power shift was followed by a change of ideology. China, although it continued to build a solid political consolidation, began to open itself to foreign capital and to introduce economic reforms, which, by and large, were incompatible with its old ideology of state planning. China maintained its communist political system while it enormously increased and encouraged economic contacts with Western capitalism. As is widely known, Mikhail Gorbachev tried a similar path by introducing perestroika and glasnost in the USSR. He failed, but the changes helped erode Soviet communism. Following the failure of Gorbachev's reforms, Soviet influence in Eastern Europe declined; it culminated in the disintegration of the USSR and the Eastern Block in 1991.[8]

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[8] Coral Bell, "The Changing Central Balance and Australian Policy," in Coral Bell, ed., *Agenda for the Nineties,* Melbourne, Longman Cheshire, 1991, pp. 1-23; and Coral Bell, "The International Environment and Australia's Foreign Policy," in F. A Mediansky and A. C. Palfreeman, eds., *In Pursuit of National Interests, Australian Foreign Policy in the 1990s,* Australia, Pergamon Press, 1988, pp. 67-84.

Three major global developments occurred following the speedy erosion of Soviet communism. First, *detente* reopened between the super powers, as illustrated by a mild *rapprochement in terms of lowering* arms capacity in Europe and other regions. These helped reduce the heat in the East-West conflict, which in turn opened more opportunities for the East and the West to initiate discussions. Second, growing problems in international political economy became impossible to ignore. The US faced domestic economic difficulties, partly caused by its high military spending, which resulted in the relative erosion of US capacity to manage and lead the international economy. Its former leading role in the General Agreement on Tariffs and Trade (GATT) and the international monetary arrangements, declined. Third, other significant issues such as environmental and nuclear-weapons disarmament emerged. In Germany and France, for example, aspirations and demands put forward by groups such as Greenpeace and the Rainbow Alliance forced governments to be more aware of the political and economic impacts of these issues.[9]

As political tension declined following the major political change at the international level, economic issues, especially economic recession predominated. The imbalance of trade among the three economic giants: the US, Japan, and the then West Germany in Europe become a concern. The US trade deficits continued as it faced challenges from the growing Northeast Asian economies. At the same time the European countries began to move toward the European Union. Many governments and commentators worried that the economic difficulties the US was facing would lead her to adopt a more protective trade policy. This concern strengthened when

[9] Nancy Viviani, "Foreign Economic Policy," in Christine Jennett and Randal G. Stewart, eds., *Hawke and the Australian Public Policy, Consensus and Restructuring,* Macmillan Australia, 1990, pp. 393-96.

they witnessed the US gradually pursue an aggressive unilateral trade policy which aimed at allowing it to interpret other countries' trade barriers according to her own standards. In effect this enabled the US to impose a new trade barrier to other countries' goods whenever it found that those countries applied a trade barrier higher than the US standard.[10] This policy continued during the 1980s and helped introduce Super 301; a new trade procedure whereby the US was able to implement its law against unfair trade practiced by other countries. This trade weapon was designed for use against countries such as Japan and the European Economies, to re-balance continued US trade deficit.[11]

In other countries, particularly the developing nations, economic problems were replicated in various forms such as poverty, economic inequality, and environment degradation. This experience forced many countries to take the same view, that it was time to concentrate on economic issues. In managing and maintaining their economies in a global market place, many were aware that the trend toward economic protective measures and bloc regional integration did not help to revive the international trade regime under the GATT system, and that the US hegemonic system of the international political economy has proven economically difficult to operate. Many countries believed that trade liberalisation was a better choice for all than the protection option. Thus, more equal cooperation, as suggested

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[10] Pierre Martin, "The Politics of International Structural Change: Aggressive Unilateralism in American Trade Policy," in Richard Stubbs and Geoffrey R. D. Underhill, eds., *Political Economy and the Changing Global Order,* Basingstoke, London, Macmillan, 1994, pp. 439-52.

[11] For further elaboration on Super 301, consult Jagdish Bhagwati and Hug T. Patrick, eds., *Aggressive Unilateralism: America's 301 Trade Policy and the World Trading System,* Ann Arbor, University of Michigan Press, 1990.

by Keohane, was urgently needed to replace the old US hegemonic system of the world political economy.[12]

The shifting balance of power was rapidly followed, therefore, by the emergence of economic issues, which replaced military and ideological matters as the single, most dominant international concern. This was a vital shift from geo-politics to geo-economics because everyone appeared to agree that "that the methods of commerce are displacing military methods–with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrisons and bases."[13] The new system tended to be focused around competition for influence by capital flows rather than militarisation, and the movement of international capital has been a driving force behind the world economy ever since.[14]

The ascendancy of global economic issues was helped by three distinct pressures.[15] The first was the increasing demand for national economies to be globalised. Many domestic economic sectors produced commodities to be consumed globally while service sectors had expanded to become part of a global service system. This was made possible by the rapid innovations in transportation and communication technologies. Similarly, the development of extensive electronic networks helped capital and finance move easily across national and state boundaries. Indeed, the

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[12] Robert O. Keohane, *After Hegemony, Cooperation and Discord in the World Political Economy,* Princeton, N. J., Princeton University Press, 1984.

[13] Edward N. Luttwak, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," *The National Interest,* Summer 1990, p. 17.

[14] P. Drucker, "The Challenge of the World Economy," *Foreign Affairs,* Vol 64 no 4, 1986, pp. 769-91.

[15] Stuart Harris, "Australia in the Global Economy in 1980s," in P. J. Boyce and R. J. Angel, eds., *Diplomacy in the Marketplace, Australia in World Affairs 1981-90,* Melbourne, Longman Cheshire, 1992, pp. 37-40.

changes within the international capital market and the rapid increase in the size and extent of the services sectors constituted the greatest changes. The second pressure came from the impact of the US economic difficulties and its contribution to a liberal international economic order. Continuing economic difficulties in the US including a huge foreign debt, an imbalance of external trade, and budget deficits, resulted in decreased financial support for the IMF and the GATT which then lowered the capacity these organisations to operate effectively. The third pressure stemmed from the growth of the new regional economic groups. The move within European countries towards a single European Economic Market, undoubtedly encouraged similar groupings in other regions, and in 1989 Asia Pacific Economic Co-operation (APEC) was formed, followed in December 1992 by the North American Free Trade Arrangement (NAFTA). There was wide concern, however, that the trend to regional economic integration[16] had the potential to be a real barrier to the liberalisation of international trade and global economic change, as regional integration threatened economic stability and reduced options for countries such as Australia, whose economies relied on an open global market.[17] In short, the trend towards closed and competing regional economic groupings or blocks presented a threat to the future of the global economy.

The birth of a global economy with liberal characteristic at the international level can be traced back to the creation of the Bretton Woods system following the

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[16] For reasons of these regional economic groups to be integrated see Kym Anderson and Hege Norheim, "History, Geography and Regional Economic Integration," in Kim Anderson and Richard Blackhurst, eds., *Regional Integration and Global Trading System,* Harvester Wheatsheaf, 1993, pp. 19-51.

[17] Richard H. Snape, Jan Adams, and David Morgan, *Regional Trade Agreements, Implications and Options for Australia,* Canberra, AGPS, 1993.

end of World War II. It was this system which created the GATT, the IMF, and the IBRD (World Bank) as global economic institutions committed to creating and maintaining a liberal international economic order with two main principles: non-discrimination and multilateralism.[18] The Bretton Woods system and its related organisations and agreements including the GATT, the IMF, and the IBRD gave a powerful role to the US by allowing it the capability to influence the structure of the global economy, and indeed it enjoyed this privilege for several decades.[19] The situation, however, began to change during the 1970s when US started to face economic trade balance difficulties, exacerbated by the oil crisis in 1973, and the emergence of Japan and the EEC as serious economic competitors.[20] Their trade surpluses undermined US trade markets and challenged the US dominance and hegemonic status within the GATT, the IMF, and the World Bank. Their impact was great enough to constitute a serious threat to US national economic interests.

In the initial stage, at least, these new factors forced a rethink in policy making circles in the US, including policies and attitudes toward the GATT. The Reagan administration, despite its rhetoric of free trade, actually took a more realistic approach to solving US economic problems. It operated from "a state-centric

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[18] F. R. Block, *The Origins of International Economic Disorder,* Berkeley, University of California Press, 1977; W. M. Schammell, *The International Economy Since 1945,* London, Macmillan, 1980; Bernard M. Hoekman and Michel M. Kostecki, *The Political Economy of the World Trading System, from GATT to WTO,* Oxford, Oxford University Press, 1995, pp. 12-31.

[19] Avinash Dixit, "How Should the United States Respond to Other Countries' Trade Policies?," in Robert M. Stern, ed., *U.S. Trade Policies in a Changing World Economy,* Cambridge, Massachusetts, MIT Press, 1988, p. 245; and Richard N. Cooper, "Trade Policy as Foreign Policy," in *ibid,* pp. 291-322. For further elaboration see Robert A. Pollard and Samuel F. Wells, Jr., "1945-1960: The Era of American Economic Hegemony," in William H. Becker and Samuel F. Wells Jr., eds., *Economics and World Power, An Assessment of American Diplomacy Since 1789,* New York, Columbia University Press, 1984, pp. 333-90.

[20] David P. Calleo, "Since 1960: American Power in a New World Economy," in *ibid,* pp. 391-458.

perspective and [from] the assumption that the international (economic) order is anarchic, turbulent and uncertain."[21] The US was determined that the international trade institutions such as GATT and IMF, had to remain under its control if they were not to jeopardise US trade arrangements. The introduction of Super 301, a piece of US legislation which give it a power to value other countries' trade barrier according to US standards, was an example how the US undermines the role of such international trade institutions, and at the same time protect its own position. To some degree, this kind of activity ran counter to the main principles of GATT; non-discrimination and multilateralism. Middle countries such as Australia and Indonesia have had to face considerable changes in the global economic structural changes which then have had little power to affect or influence.

In summary, the decade of 1980s was the decade of change, as indicated by various trends. While many developing countries struggled to improve their economies, industrial countries were still traumatised by the increasing price and declining availability of energy fuels in the 1970s. At the same time, the East-West conflict substantially increased the economic difficulties of the two main super powers, the US and the USSR, to some extent brought about by their massive military expenditure during the Cold War. Serious regional conflicts were common – by 1984 Europe was the only continent without active fighting.[22] The rise of issues such as environmental degradation, rapid growth in world population, and the prevailing poverty in many countries complicated the situation. Many countries faced a common issue of economic crisis, symptoms of which appeared in various forms. These

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[21] Richard A. Higgot, *The World Economic Order, the Trade Crisis and its Implications for Australia,* Canberra, the Australian Institute of International Affairs, 1987, p. 16.

[22] Stephen E. Ambrose, *op. cit.,* p. 316.

problems forced many government leaders to reassess ways in which they had previously managed their economic policies, both domestically and internationally.

It is true to say that geo-political and ideological issues dominated the agenda of the international system right up until the middle of 1980s. However, after Gorbachev introduced his historic policy of Glasnost and Perestroika, thc situation changed dramatically. Gorbachev's revolution helped the disappearance of the bipolar system and gave new opportunities to both super powers to hold serious discussions on nuclear weapons disarmament. Gorbachev's reforms also encouraged former Soviet allies, particularly countries in Eastern Europe, to go even further in consolidating their own political identity and in seeking their own ways of solving their economic problems. They found that they could confidently set up East-West business relationships without fear of interference from the USSR.[23] In short, Gorbachev's glasnost policy was a turning point that helped bring about a new balance of power in the international system, a multipolar system. Furthermore, universal recognition that economic well-being was more important than military rivalry, assisted by new technologies in communications, has increased interdependence between states. However, economic competition between states intensified too, following the decline in strategic competition between super powers. Nonetheless, a much more fluid international environment emerged, which provided a stage for small and middle-sized nations to play a significant role in the global politics. As well as this, other security concerns surfaced. Some were caused by the resurgence of ethno-nationalism as people appealed for self-determination, while others

[23] K. E. Schenk, J. Monkiewicz, Wass V. Csege, eds., *New Dimension in East-West Business Relations, Framework, Implications, Global Consequences,* New York and Stutgart, VHC Publisher and Gustav Fisher Verlag, 1991.

forcefully demanded an opportunity to build own nation states. The implications of these new trends are global and it is likely that no single country is able to handle them alone. Multilateral-based cooperation might be an appropriate approach to contend them.[24] Within the new pattern of global politics, economic strength is not the only factor which will give countries a greater potential to exert influence over other states. International trade, foreign investment levels, and aid flows also have a significant impact on the behaviour and even internal stability of many countries.[25] In short, economics has steadily become the prime focus of most countries, and the main item on the foreign relations agenda during the 1980s. Security alliances are still important,[26] but many countries used them merely it as a basis to establish a constructive environment which is needed as a cornerstone to achieve long term economic objectives.[27] Within this changed framework, it was necessary to redefine clear goals of foreign and defence policies.[28]

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[24] For more elaboration see Gareth Evans, *Cooperating for Peace, the Global Agenda for the 1990s and Beyond,* Sydney, Allen & Unwin, 1993, pp. 3-5; Gareth Evans, "The World After the Cold War — Community and Cooperation: An Australian View," *The Round Table,* no. 329, 1994, pp. 33-9.

[25] See Andrew Selth, "The Changing Strategic Environment, a Global and Regional Overview," *Current Affairs Bulletin,* Vol. 70 no. 9, 1994, pp. 17-21.

[26] Jim Sanday, "Security alliances still important," *Asia-Pacific Defence Reporter,* February/ March 1994, pp. 35-6.

[27] Richard A. Higgot, "The Evolving World Economy: Some Alternative Security Questions for Australia," in *Canberra Papers on Strategy and Defence,* No. 51 Canberra, Strategic and Defence Studies Centre, Research School of Pacific Studies, the Australian National University, 1989, pp. 1-90.

[28] Bob Hawke, "Cooperation, Hope, and a New World Order," *Australian Foreign Affairs and Trade,* Vol. 62 no. 9, 1991, pp. 531-35; Bob Hawke, "Clear Goals and Roles in Defence Policy," *Australian Foreign Affairs and Trade,* Vol. 62 no. 9, 1991, pp. 577-79; and see also Gareth Evans, "Australia's Foreign Policy; Responding to Change," *Australian Foreign Affairs and Trade,* Vol. 61 no. 9, 1990, pp. 586-95.

CHAPTER FOUR

RESPONDING TO CHANGE:

AUSTRALIA'S FOREIGN POLICY IN THE 1980s

This chapter analyses the ways in which the economic impact of global economic change led the Australian government to re-structure and re-formulate its foreign policy during the 1980s. It explores positions taken by the Australian government and the arguments used by the government to justify them. During this process the primacy of the economy was unquestioned and led to the formulation of a "new look" official foreign policy in 1989. The orientation of Australia's foreign policy has, over that decade, changed from the one which was globally oriented and strategically reliant upon the US, to the one that is more oriented towards regional economies.

Economic Decline

It has been argued widely that while Australia maintained its protection of industry through economic policy, its economic development historically has depended on the open global market for exporting its agricultural products.[1] Change

[1] Bob Catley, *Globalising Australian Capitalism,* Melbourne, Cambridge University Press, 1996, chapter 3.

in the global economy, consequently, has always effected the state of the Australian economy. A study by Meredith and Dyster has found that the development of industrialisation in Western Europe, North America, and Japan significantly influenced the Australian economy, and that Australia's dependence on the imports of foreign capital and labour increased that influence. This study argued, moreover, that the economic crisis of the 1980s challenged Australia to formulate a new structural and strategic economic policy that would enable it find a place in the new world economy.[2] This situation has been something of a test for successive Australian governments since 1980.

Throughout the 1980s, the need to come up with new policy intensified because Australia experienced an almost continuous economic decline, as indicated by the following economic figures published by the Australian Bureau of Statistics (ABS). Trade in goods and services decreased and reached its lowest mark in 1986. This was accompanied by an increased stagflation, a ballooning budget deficit, and rising unemployment. The value of the Australian dollar declined as well, trading at less than 0.6 US dollar in 1986. During the same period, Australia's main commodity exports, wool, wheat, meat, iron-ore, coal, petroleum, and manufactures, were at stcady or falling prices,[3] while external debt increased from $ 30,475 million in 1984-85 to around $70,000 million in February 1986.[4] Within two years unemployment doubled, going from five to ten per cent between 1981-1983.[5] A study by Harris

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[2] Barrie Dyster and David Meredith, *Australia in the International Economy, in the Twentieth Century,* Cambridge, Cambridge University Press, 1990.

[3] *Ibid,* pp. 268-92.

[4] E.M. Andrews, *A History of Australian Foreign Policy,* second edition, Melbourne, Longman Cheshire, 1988, p. 234.

[5] R. Catley, "Australia and the Great Powers 1933-83," *Australian Outlook,* Vol. 37 no. 3, 1983, p. 145.

which analysed nine key economic indicators —current account, terms of trade, exchange rate, trade weighted index, foreign debt, migration, change in real GDP of Australia, GDP compared to OECD countries, export as % of GDP, international index of competitiveness, and interests rate— concluded that the Australian economy generally declined during the 1980s.[6]

The growing trend to regional economic orientation made the situation worse for Australia, because it encouraged the formation of protected markets, resulting in the breakdown of the General Agreements on Tariff and Trade (GATT). This had the potential to reduce the willingness of the three major economic powers (the US, Japan, and the European Union) to collaborate on financial matters, and could result in a slowing of economic growth leading to global inflation and triggering a debt crisis.[7] This picture would leave the Australian economy a greatly reduced range of options. Faced with such a scenario, Australia needed to re-structure its economy. It required a new domestic economic mechanism which was able to respond to rapid structural change at the international level. The Fraser-led Coalition government tried to achieve this but failed. In particular, that government was unable to maintain Australia's mini boom in 1980/81.[8] Subsequently, the popularity of his government waned and in the March 1983, the Coalition lost government to the Australian Labor Party (ALP), and Mr. Robert (Bob) Lee Hawke became the Prime Minister.

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[6] Stuart Harris, "Australia in the Global Economy in the 1980s," in P. J. Boyce and R. J. Angel, eds., *Diplomacy in the Marketplace, Australia in World Affairs 1981-90,* Melbourne, Longman Cheshire, 1992, p. 48.

[7] Stuart Harris, "Economic Change in the International System; Implications for Australia's Prospects," in Coral Bell, ed., *Agenda for the Nineties,* Melbourne, Longman Cheshire, 1991, p. 42.

[8] W. M. Corden, "Australia in the World Economy," in Paul Dibb, ed., *Australia's External Relations in the 1980s, the Interaction of Economic, Political and Strategic Factors,* Canberra, Croom Helm Australia and New York, St. Martin's Press, 1983, pp. 17-27.

Shifting Orientation

The Hawke-led Labor government recognised the imperative of global economic change and the need for a policy of economic adjustment, carefully co-ordinated and supported by well-considered strategies. It started by substantially deregulating the domestic economy and opening it up to global market forces. Hawke argued that adverse developments in the international economic environment had partly contributed to the acute economic difficulties Australia was trying to overcome, and reminded critics of the crucial linkages between trade, debt, interest rates, and the stability of the world financial system. He insisted that this economic stability required the existence of a more certain economic environment, in which macro economic policies of the major industrial countries played a leading role. The importance of the Asia-Pacific region were also stressed. Hawke pointed to their past growth and the enormous trading opportunities they offered. To achieve similar growth rates and expanded exports, he argued that Australia had to complete a preliminary but vital task – that of establishing a nationally coordinated program that would pull together political, defence, security, and trading objectives.[9]

In general, the government's arguments signalled an urgent need to have a coherent economic strategy capable of responding to global economic changes. It also sent a strong message that if Australia was not ready to adjust to the global change, it would lose out. The arguments made in favour of such strategy clearly indicated a real shift in the substance of Australia's foreign policy which placed economic issues

[9] Bob Hawke, "An Australian View of the World," *Australian Foreign Affairs Record,* Vol. 54 no. 8, 1983, pp. 419-21.

on a par with political and security concerns. In recognising the importance of Asia-Pacific economies, the government equally demonstrated Australia's readiness to take a more regional approach in foreign policy. Although the new approach was less global, it did not undermine Australia's relationship with its main security ally, the US. Hawke stated publicly that the relationship was vital to Australia and therefore it must be sustained.[10] Australia's foreign policy, nevertheless, shifted from the one that was primarily concerned with bilateral and multilateral alliances for political and security reasons, to one which was more strongly economically and regionally based.[11] This was a significant response to global economic change and the growing importance of the Asia-Pacific economy.

Bill Hayden, Hawke's first Minister for Foreign Affairs, elaborated on this when he argued that Australia was facing fundamental technological and economic changes which had wide implications for Australia's way of life, including the economy, foreign policy, and even its social system. Australia, said Hayden, needed to make two major efforts if it was to meet the challenge successfully. One was to develop vigorous, independent foreign and defence policies which would boost Australia's relationship with its allies, and the other was to take a vigorous entrepreneurial approach towards economic activities, encouraged and promoted by government.[12] Furthermore, in relation to the growing importance of Asia's economy to Australia, Hayden stressed that Australia would have to change its perception of

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[10] *Ibid.*

[11] Nancy Viviani, "Foreign Economic Policy," in Christine Jennett and Randal G. Stewart, eds., *Hawke and the Australian Public Policy, Consensus and Restructuring,* Macmillan Australia, 1990, p. 391.

[12] Bill Hayden, "Australia and the Asian Region," *Australian Foreign Affairs Record,* Vol. 54 no. 10, 1983, p. 580-81.

Asians and Asian countries as it was inevitable that Australia and countries in the Asian region would share an interdependent future. He insisted that it was important for Australians to become expert and knowledgable on Asia, to have personal contacts and be more understanding, and have an interest in, and commitment to, regional development and peace.[13]

Hayden gave another examples of why Australia's new foreign policy approach was important in a speech to the Sir Herman Black Contemporary Asian Affairs Forum, University of Sydney on 16 October 1984. He pointed to Australia's future trading relationship with three Northeast Asian countries: Japan, China, and South Korea. In the case of Australia-Japan relations, Hayden highlighted the decline of Australia's exports, but emphasised the need for both countries to commit to building new arrangements, that would ensure regional security while allowing for increased economic growth. In relation to South Korea, Hayden pointed to the 32 per cent increase in Australia's export to that country between 1971 and 1982. During the same period, Australian-South Korean relations in social, political, and cultural exchanges also widened. Hayden also touched on some achievements in Australia's relationship with China in which both countries had gained, particularly since diplomatic relations were established in 1972 by the Whitlam-led Labor government. Australia's exports to China had increased while bilateral arrangements on education, culture, science, and technology between two countries were underway. Hayden supported China's continued attempt to improve relations with the Soviet Union, as this was a positive trend toward the creation of a more constructive environment for

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[13] Hon. W.G. Hayden, "Australia and the Asian Region," *Australian Outlook,* Vol. 37 no. 3, 1983, p. 150.

maintaining the type of economic development which all countries in the region wanted to achieve.[14] The increasingly important role that China would play in the future in Asia-Pacific was re-emphasised by Prime Minister Hawke. He mentioned China's current impressive of ten per cent economic growth, and predicted this was an early indication of the degree of economic development China would be able to achieve by the end of century. Hawke insisted, however, that to maintain economic momentum, China needed to further relax its open door policy to the outside world and continue with economic and political reforms. Hawke indicated that as a part of the region, Australia wanted and was ready to develop its relationship with China. Australia's past successful experiences in opening trade relationships with Japan and East Asia's newly industrialised countries in the 1950s and 1960s, argued Hawke, could be applied for achieving similar success with China.[15]

Hawke's and Hayden's remarks, as described above, were significant on a number of points. For one thing, they clearly demonstrated Australia's recognition that it cannot separate or protect its domestic economy from global economic trends. Further, they acknowledge explicitly the importance to Australia of economic developments within the Asia Pacific region. All these pushed the Australian government to make the necessary effort to remake Australia's foreign policy and have it focus more sharply on the Asia Pacific region. In addition, these arguments showed the willingness and the readiness of the Australian government to restructure

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[14] Bill Hayden, "Australia and Asia: Options and Opportunities," *Australian Foreign Affairs Record,* Vol. 55 no. 10, 1984, pp. 1066-73.

[15] Speech by the Prime Minister, Mr. R. J. Hawke, at the Nanjing University, China, on 23 May 1986, *Backgrounder,* No. 527, 1986, p. A.2.

economic policy, and have foreign policy adjusted to serve the needs of the revised economic strategy.

Aid, Defence, and Liberalisation

The government's responses to global economic change were justified and supported by a number of important reports and policy documents. The first occurred when the Minister for Foreign Affairs authorised a committee, led by Sir. Gordon Jackson, to review Australia's overseas aid program. The review was aimed at evaluating the effectiveness of Australia's overseas aid program as an arm of foreign policy. The government required the Committee to analyse the program and submit recommendations for the better management of future aid policy.

The Committee's findings, known publicly as the Jackson Report, may be summarised as follows. Compared to other donor programs, the Australian aid program was one of the most fragmented as it tended to spread small amounts of aid over a large number of activities. This fragmentation discouraged the building up of any significant degree of expertise in particular sectors or in particular countries. Noting this negative outcome, and aware of the modest size of Australian aid and its marginal status with large donor countries, the Committee suggested that the aid program be rationalised in order to strengthen Australia's donor position. As well, the Committee found various instances of overlapping due to the poor coordination of multilateral aid delivered through the various United Nations various agencies and suggested that aid be consolidated to avoid waste. The most interesting suggestion, however, was the one to maintain the aid program's, humanitarian and development

objectives, while redirecting future aid programs to a more regional focus. The Committee proposed that four regions have priority. Firstly, Papua New Guinea and the small countries in the South Pacific and Indian Ocean were entitled to receive all types of aid programs. Secondly, Southeast and South Asian countries were to receive country programs aid, but an evaluation would be made of their greatest aid needs. Thirdly, China, India, Pakistan and Bangladesh were eligible to get project aid but it would be considered on the basis of mutual interest between Australia and these countries. Fourthly, other developing countries outside the Asia-Pacific region were eligible to receive only food aid, technical and training assistance. For these countries, it was strongly recommended that project aid not be delivered, because "Australia cannot undertake projects effectively unless it focuses its efforts."[16]

Conclusions and suggestions made by the Jackson Report, however, received trenchant criticism from various aid and humanitarian organisations. The Australian Council for Overseas Aid (AFCOA) and the Community Aid Abroad (CAA) agreed with the underlying rationale of Jackson's suggestion: that is, aid was for development and humanitarian reasons. However, they criticised the report for failing to clarify the confusion existing around aid objectives. Similarly, the Australian Freedom from Hunger Campaign (AFFHC) complained that the findings of Jackson Commission concentrated heavily on economic growth and paid too little attention to the issue of equality.[17] Regardless of these criticisms, the Jackson Commission's findings and suggestions strengthened the government's attempts to redirect foreign policy by

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[16]Report of the Committee Review, *The Australian Overseas Aid Programme,* Canberra, AGPS, 1984.

[17] Joint Committee on Foreign Affairs and Defence, *The Jackson Report on Australia's Overseas Aid Program,* Canberra, AGPS, 1985, p. 8.

giving it a more regional focus. It also justified the government's argument about the growth of economic dynamism in the Asia-Pacific region and the economic value it represented to Australia. On the primacy of economic over other issues, the report made explicit connection between aid and trade (export). It argued that in making decisions about the distribution of aid, the government needed to consider the specialist expertise and future exports that Australia might gain from countries that received its aid.

When the report was discussed by the all party Joint Parliamentary Committee on Foreign Affairs and Defence, its findings and suggestions were mostly agreed to. On the geographic consideration of aid distribution suggested by the Jackson Report, the Joint Committee fully supported this on the grounds that it provided a basis for sound judgment and level of analysis, and helped to establish a planning framework for distributing various forms of aid, both in sectoral and country programs. On the matter of the relationship between aid and trade (commercial interests), the Joint Committee endorsed the recommendations of the Jackson Report. It suggested, however, that "the value of the aid program to commercial interests can best be extended by careful selection and design of aid so as to emphasise areas in which Australia is competitive and has demonstrated strengths that are appropriate to the needs of developing countries."[18] The approval of refocussing aid priorities meant that Australia attempted to build strong economic and diplomatic structures within the Asia-Pacific region through the donation of significant amounts of aid.[19]

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[18] The Parliament of the Commonwealth of Australia, Joint Committee on Foreign Affairs and Defence, *op cit.*

[19] John Kavanagh, "Australian Foreign Policy Under Hawke; 'New Fiddler - Same Tune,'" Honours Thesis, Politics Department, the University of Adelaide, 1991.

The release of Australia's 1987 Defence White Paper,[20] based on Paul Dibb's review a year before,[21] marked the second step in the changing direction of Australia's foreign policy in the 1980s. The central tenet of the White Paper was the proposition that Australia urgently prioritise the building of a self-reliant defence policy to be pursued within a framework of alliances and agreements with other countries. Such a policy involved a strategy of denial. It required Australia acquiring a number of defence capability components. First, it needed a capacity for early detection of possible enemy approaches. Secondly, a long-range strike capability, both at the sea and in the air, was required so as to prevent any likely enemy reaching Australian soil and confine any conflict to the "air-sea gap." Thirdly, it was recommended that highly mobile ground forces capable of supporting the effectiveness of long-range strikes be formed. And, fourthly, that advanced technology in communications and advanced intelligence operations be acquired. Concerning this last point, the continued presence of joint US communication facilities in Australian soil was regarded as important strategically for Australia. Indeed Australia saw its security arrangements with allies as an essential part in the process of enhancing self-reliance through improved technological capabilities. The White Paper emphasised, however, that Australia needed to be 'realistic' in handling tasks within the alliance and it concluded that, despite the need to be constantly vigilant about developments in its region of so-called primary strategic interest, Australia should be able to react positively to calls for military support under alliance commitments.[22] To do this, Australia needed to base

[20] Department of Defence, *The Defence of Australia,* Canberra, AGPS, 1987.

[21] Paul Dibb, *Review of Australia's Defence Capabilities, Report to the Minister for Defence,* Canberra, AGPS, 1986.

[22] Department of Defence, *op. cit,* chapter one.

its strategic calculations on a regional view. The paper identified South-East Asia, the eastern Indian Ocean, and the South Pacific as Australia's areas of primary strategic interest, arguing that "political, economic and military developments in this area are of fundamental importance to Australia."[23]

Obviously, the fundamental aim in the Defence White Paper was to defend Australia's sovereignty from outside threats. The adoption of the strategy of denial signalled the beginning of new approach; a realistic defence and foreign policy, which required Australia to determine a position somewhere between carrying out national security tasks on the one hand and its obligation's under arrangements with allies on the other hand. In considering the problem broadly, the paper acknowledged that Australia's various national interests needed to be met multi-dimensionally. In short, by implementing the suggestions in the White Paper, Australia could also achieve four objectives simultaneously: independent defence of Australian territory, the promotion of regional security and stability, the capacity to meet alliance obligations, and a contribution to global strategic security.[24] Most importantly, however, by emphasising the need for regional stability, the White Paper went in tandem with the Australian government's arguments about the importance of regional economic development. Thus, strategy is important to create a stable situation, needed as a cornerstone for the long term objective of economic development.

By the mid of 1980s, Australia had begun opening its economy, mainly by introducing deregulation, floating the Australian dollar, reducing restrictions on foreign investments, and lowering protection in some areas of trade. It refocussed

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[23] *Ibid,* p. 12.

[24] Gareth Evans, "Australia's Place in the World," *Australian Foreign Affairs Record,* Vol. 59 no. 10, 1988, p. 526.

industry policies which aimed at improving the quality of Australian products and encouraged industries to become export-oriented and internationally competitive. The government diversified and increased exports in the service sectors, including education, and tourism. At the multilateral level, similar efforts were made. Australia began to pursue policies which favoured the liberalisation of international trade under the GATT arrangements. In regard to this, one considerable achievement by Australia was its pivotal role in helping to establish the Cairns Group. The group was formed in Cairns, Australia, on 27 August 1986. The then Australian Minister for Trade, John Dawkins, and Australia's Minister for Trade Negotiations, Michael Duffy, convened the first meeting. The group was made up of fourteen economically diverse but agricultural-based countries including Australia, Argentina, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay. Its main task was to secure major reform in international agricultural trade as proposed under the GATT arrangement.[25] The group members agreed to make a united effort to have agricultural trade put on the agenda of the Uruguay Multilateral Trade Negotiations (MTN), arguing that the exclusion of agricultural trade from the MTN, as had been the case since 1940s, was not beneficial for 'small' agricultural countries such as members of the Cairns Group.[26] It targeted the opening up of the Japanese and the European Community markets and the dismantling of US domestic agricultural subsidies.[27] Many initially criticised the Cairns

[25] Richard A. Higgot and Andrew Fenton, "Middle Power Leadership and Coalition Building: Australia, the Cairns Group and the Uruguay Round of Trade Negotiations," *International Organisation,* Vol. 44 no. 4, 1990, p. 590.

[26] Editorial, "The Cairns Communique," *The Sydney Morning Herald,* 20 August, 1986, p. 10.

[27] Amanda Buckley and Sarah Sargent, "Tough Cairns Message," *Australian Financial Review,* 28 August 1986, pp. 1, 4.

Group activities and maintained that the Group had set an ambitious goal without regard for the fact that the majority of its members were developing countries.[28] However, in late 1993 the Cairns Group actions were successful when the GATT Uruguay Round finally agreed to include agricultural trade in its negotiations.

In pushing to integrate economic and foreign policy, the Australian government amalgamated the Department of Foreign Affairs and the Department of Trade into the Department of Foreign Affairs and Trade (DFAT) in 1987. This merger not only had practical policy advantages, it also conveyed a message to other countries that Australia was serious in pursuing its economic goals through foreign policy.[29] The new portfolio soon incorporated the Australian Information Service (AIS), which previously existed within many departments but had played a marginal role in overseas promotion. The government expected that the amalgamation would provide better coordination on issues concerning Australia's economic interests abroad. A former secretary of the Department of Foreign Affairs and Trade, Richard Woolcott, later acknowledged that the incorporation of AIS into the portfolio of DFAT had not only been a logical decision, but it had added to the effectiveness of the newly amalgamated department in serving its responsibilities in trade policy, foreign policy, and thc promotion of Australian products and services overseas.[30] In 1991, the government went further down this route when it relocated Austrade, the

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[28] Editorial, "Strange goings-on at Cairns," *Australian Financial Review,* 28 August 1986, p. 14; Ross Dunn, "Expert says Cairns declaration hopes are set too high," *The Sydney Morning Herald,* 28 August 1986, p. 1; and Paul Austin, "Fair Traders group for GATT showdown," *The Australian,* 28 August 1986, p. 1.

[29] Gareth Evans, "Australia offshore ---Diplomats and Traders," *Australian Foreign Affairs Record,* Vol. 59 no. 11, 1988, p. 457.

[30] Richard Woolcott, "The Amalgamation of Foreign Affairs and Trade," *Australian Foreign Affairs and Trade,* special edition, Vol. 62 no. 11 & 12, 1992, p. 49.

government's main external trade promotion body, into the DFAT, thus integrating Austrade activities more closely with Australian diplomatic missions overseas.[31]

The third major event marking the reorientation of Australia's foreign policy was the release of the Garnaut Report in 1988 and its subsequent support by the government. Like the Jackson Report, the Garnaut Report was commissioned by the government, however, this time with the aim of investigating the effects of economic development in Northeast Asia and possible Australian responses.

Essentially, the report contained an analysis of economic growth and structural change in three East Asian countries; Japan, China (including Taiwan and Hongkong), and South Korea. Its findings and recommendations are summarised as follows.[32] Without doubt, the steady increase in economic growth in Northeast Asian countries was remarkable. Between 1950-80 production in these countries expanded 'from something less than one quarter of North America's, and one-tenth of the world's, to a similar order of magnitude to North America's and one-fifth or one quarter of the world's.' During the same period, Northeast Asia was the main source of international trade, and its savings and investments were larger than those of North America and the European Economic Community. The report pointed to a deliberate decision by the governments of those countries to have an international orientation, to build and sustain political stability, to facilitate structural economic transformation, and to provide adequate services for production. In addition to these factors, cultural

[31] Gareth Evans and Bruce Grant, *Australia's Foreign Relations in the World of the 1990s*, Melbourne, Melbourne University Press, 1991, p. 40

[32] This part and the subsequent explanations are summarised from Ross Garnaut, *Australia and the Northeast Asian Ascendancy*, Report to the Prime Minister and the Minister for Foreign Affairs and Trade, Canberra, AGPS, 1989.

influences (personal and social discipline in Garnaut's own words) and a long term economic vision all contributed to this remarkable economic growth.

The report, however, contrasted this picture with the poor performance of Australia's productivity. Although Australia is prominent with mineral exports, Northeast Asian economies only absorbed one-half of Australia's mineral exports and one-third of Australia's agricultural products. This low figure was said to be associated with the 'parochial orientation' or inward looking and protection policy Australia pursued in the past, resulted in trade inefficiency and uncompetitiveness. However, the report suggested that the remarkable economic growth in Northeast Asia was not threatening Australia's future economy but rather, said Garnaut, presented an opportunity for enormous trade advantages. This required Australia to develop a capability to engage. In doing this, the report argued, Australia's European historical background and long established democratic culture were advantages that could be utilised in engaging with Northeast Asia.

To successfully pursue such advantages, however, Australia must realise its capacity as a middle power nation. As such, it has only a limited capacity to achieve objectives through acting as a national power, but it does have the power to persuade and influence other countries over the economic directions they might take. Within this framework, Australia would have to persuade Northeast Asian countries to keep their economies open and internationally oriented, and non-discriminatory in relation to market access. The report strongly suggested that, as part of the region, Australia needed to maximise economic diplomacy at any level (bilateral, regional, and multilateral) within the region, to ensure continuing openness of the Northeast Asian

economies. It stressed the necessity for Australia to acquire the appropriate skills to manage relations with Northeast Asia professionally, and to become literate on Asian matters. Furthermore, familiarisation with Asian culture, the report suggested, could be possibly achieved by "increased flexibility in [Australia's] established public sector, tertiary and research institutions, and by the [establishment] of new private institutions linking education, information services and analysis related to Northeast Asian economies, politics and languages." The report, moreover, urged Australia to improve the quality and performance of its manufactured products so that they would be competitive on the global market. Similar suggestions were advanced about Australia's exports of raw materials, particularly those intended for Northeast Asia. All recommendations required the firm backing of the government's 'economic diplomacy' to have their maximum effect.

Despite its comprehensiveness, however, the Garnaut Report was widely criticised within Australia. Bruce Grant was critical of the report's lack concern with security and cultural matters. Grant argued that the Northeast Asian countries' strong economies, especially China and Japan, may possibly exert a disruptive influence in Southeast Asia and the South Pacific, given the complexity of security matters in the region, and if it was the case, Australia would not be able to take economic opportunities, as suggested by the report. Despite opposing Garnaut's suggestions, Grant's words reinforced the linkages between economy, security, and political issues. Similarly, on cultural issues Grant questioned the Garnaut Report's notion of cultural change as rather a practical exercise that would be easy to achieve. Grant had reservations about how Garnaut's praise for Asian culture as something that was

special for Australian society. Grant argued that historically Europe has been a "source of the ideas that have dominated the 20th Century," and claimed that Asian "educational systems and social forms do not encourage intellectual debate." In addition, Grant argued that Asian culture is not monolithic, and that the multicultural face of Australian society provides a less than fertile ground for advocating Asian priorities within Australia's public life.[33] Other critics focused on areas they believed the report failed to address. They pointed to the strong interventionist policies that were taken by all governments in the Northeast Asian countries to boost their economic development, including protective policies on car industries in South Korea and agricultural products in Japan. Furthermore, they questioned the report's suggestion that zero tariff applied by the year 2000, arguing that it would not produce the desired economic stimulus when other countries still preferred protection policy.[34]

Regardless of these criticisms, nonetheless, the Garnaut Report not only re-emphasised the government's arguments but also justified the direction that economic policy had taken since 1980s. Its economic recommendations clearly lent more strength to the government's efforts to have foreign policy more economically oriented. Furthermore, where the report suggested Australia focus on domestic economic reform —as a cornerstone to boost the Australian economy to be internationally competitive— it actually justified the domestic economic policies already endorsed by the government and strengthened the macro economic reform

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[33] Bruce Grant, "The Global Context of Australian-Northeast Asian Relations: Some Comments on the Garnaut Report," *Australian Journal of International Affairs,* Vol. 44 No. 1, April 1990, p. 3, 5, and 6.

[34] For more elaboration see John McKay and Geoff Missen, "Accounting for Northeast Asian Growth: Garnaut's Limited Ledger," *Australian Journal of International Affairs,* Vol. 44 no. 1, April 1990, pp. 29-37; and see also Australian Manufacturing Council, *The Global Challenge; Australian Manufacturing in the 1990s,* Melbourne, Australian Manufacturing Council, 1990.

that had proceeded since 1983. In short, most of the report's recommendations boosted the government's intention to restructure the economy even further and faster.

As a response to the report, the Australian government proposed the foundation of a new group – the Asia-Pacific Economic Co-operation (APEC) in 1989. Prime Minister Hawke launched the proposal publicly in a speech delivered in Seoul, South Korea, in January of that year and in November, APEC was formally established during the first ministerial meeting in Canberra. During the meeting, members concluded several agreements, including one on APEC's basic principles which were decided as follows;

> APEC is to sustain growth and development of the region, so as to contribute to growth of the world economy.
>
> APEC should seek to strengthen an open multilateral trading system and not be directed towards the formation of a regional trading block.
>
> Recognising the diversity of the region, APEC should rely on dialogue and consensus with equal respect for the views of all participants, based on non-formal consultations.
>
> APEC should focus on economic matters, rather than political or security issues, to advance common interests and foster constructive interdependence by encouraging the flow of goods, services, capital and technology.
>
> APEC should complement and draw upon existing regional organisations such as ASEAN and PECC.
>
> Participation in APEC should be assessed on the basis of economic linkages with the region and could be extended by consensus of all participants.[35]

[35] Vilberto Selochan, *New Directions and New Thinking in Australia-Southeast Asia Relations,* Australia-Asia Papers No. 62, Griffith University, Centre for the Study of Australia-Asia Relations, 1992, p. 37.

Thus, APEC was initially a forum for regional dialogue on matters of common economic interest, with the principal aim of encouraging more effective cooperation between countries in the region. In doing this, APEC supported trade negotiations through the Uruguay Round mechanism and promoted regional trade liberalisation on a non-discriminatory basis.

The driving force behind Australia's APEC proposal was a strong urge to catch up with the Asia-Pacific's economic development, and integrate with the region. Furthermore, APEC's objectives, which so powerfully reflected Australia's, illustrated not only another aspect of the economic imperative driving Australia's diplomacy, but also a commitment to becoming a fully fledged partner of neighbouring countries within the region.[36] In short, it was a bridge to those rapidly growing economies in the region with which Australia intended to integrate.

A New Look Foreign Policy

The official formulation of Australia's foreign policy concluded when the then Minister for Foreign Affairs and Trade, Senator Gareth Evans, released his ministerial statement, entitled *Australia's Regional Security,* on 6 December 1989.[37] The statement began by recognising the shifting global balance of power. The demise of communism, begun in Eastern Europe, had led to a shift in the global balance of power from a bipolar to a multipolar system. This allowed for an increasing role for other countries such as Japan, China, and India. The statement argued, however, that

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[36] Gareth Evans and Bruce Grant, *op. cit.*, p. 121.

[37] Ministerial Statement by Senator, the Hon. Gareth Evans, QC, Minister for Foreign Affairs and Trade, 6 December 1989, *Australia's Regional Security,* Canberra, Management Information Processing, Department of Foreign Affairs and Trade, 1989.

Western nations continued to dominate due largely to their political stability and advanced economic development.

In terms of the relationship between foreign and defence policies, the statement placed defence in a central position of Australia's foreign policy. The statement stressed the importance of the South Pacific, Southeast Asia (including Indochina and Myanmar), and the eastern reaches of the Indian Ocean, as the region – as had been spelt out in the defence White Paper 1987– in which Australia's primary strategic interests lay. In maintaining this, the statement emphasised the importance for Australia of achieving self-reliance, using its own resources. It argued also that self-reliance could be pursued through cooperation with allies especially through Australia-New Zealand-United States (ANZUS) and Five Power Defence Arrangement (FPDA), and by creating regional security networks. However, it was in Australia's interests to develop arrangement with other countries in the region, both bilaterally and multilaterally.

Within its new global outlook, the statement clarified four major priorities of Australia's foreign policy: to protect Australia's security by participating in the creation and maintenance of a positive strategic environment within the region; to pursue trade and investment through economic cooperation; to contribute at all times to global security; and to build the cause of good international citizenship. The statement argued, moreover, that extensive economic linkages create mutual interests, which in turn could reduce the possibility of military conflict. The statement placed a high value on APEC as a mechanism through which new connections might be built up within the region. The statement supported Australians becoming more familiar

with Asian culture, as a prerequisite for integration with the region. In supporting regional stability, the statement stressed the need for Australia to continue to concentrate on delivering aid toward countries within the region, although the quality of it needed to be improved, if it were to serve Australia's future economic interests. This was on the premise that the more recipient countries were able to achieve economic well-being, the more they are able to absorb Australia's exports. Despite this, however, the statement also noted the need for Australia to raise other significant issues such as human rights and environmental degradation, and recommended that these be put into perspective so as to achieve a balance between these issues and ones relating to economic and security matters.

The ministerial statement was a multi-dimensional approach, which contained major policy responses. First, it went hand in hand with 1987 Defence White Paper, by suggesting that Australia needed to possess a military capability for deterrence purposes, but, if necessary, for defeating aggressors threatening Australia's sovereignty. Second, Australia needed to utilise its military resources and presence in the region in order to create a sense of shared security interests. Third, in cases where tension and friction might arise between states in the region, Australia should be prepared to use traditional diplomatic skills to solve disputes effectively. Four, Australia emphasised the need to increase economic cooperation, particularly with countries in Southeast Asia. Five, it stressed the need for Australia to continue development assistance programs as a contribution to the security of the region –the more these countries developed economically and became politically stable, the more likely the entire region would be stable. Six, despite exercising politico-military

capability, Australia needed also to help countries in the region with other social problems including environmental degradation, AIDS, narcotics trafficking, unregulated population flows, and refugee problems. And seven, in assisting with these, Australia needed to increase people-to-people contacts, as an important medium for the exchange of ideas, and as means of fostering an understanding of cultural differences.[38]

In short, the ministerial statement finally concretised the new orientation of Australia's foreign policy which had gradually shifted its focus from geo-politics, relying on the alliance with the US, to a more regional foreign policy approach. It gave primacy to economic issues within Australia's foreign policy and demonstrated how strategic and security considerations have been closely tied to foreign policy, thus indicating the multi-dimensional nature of the policy. The statement represented "a departure from the past practice of regarding defence and foreign policy issues as separate,"[39] and in terms of image, its holistic view of security matters, "should help change some hostile attitudes of Australia towards the region and the region towards Australia."[40]

In conclusion, in the 1980s, the Australian government made considerable and constant efforts to change the orientation of Australia's foreign policy from onc which was globally oriented and relied on the US strategically, to one that was more economic and regionally oriented. During this period, the economy emerged as a dominant aspect of Australia's overall foreign policy, though the policy did not downgrade the importance of security and strategic issues. This chapter has shown

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[38] "Australia's Regional Security," *Backgrounder*, Vol. 1 no. 4, 15 December 1989, pp. 2-3.
[39] *The Sydney Morning Herald*, 7 December 1989.
[40] *The Canberra Times*, 8 December 1989.

that two main factors triggered Australia to pursue a new orientation of foreign policy. One was the vulnerability of Australia's economy to the global economic change, the other was the challenge of rapid economic growth in the Asia Pacific region, and the opportunities for Australia's economy that this represents. Both factors have forced the Australian government to open up and liberalise Australia's economy which in turn has resulted in a considerable re-orientation of priority in Australia's foreign policy. Evidence for the refocussing can be found in the major initiatives taken by the government throughout the 1980s: the Jackson Committee, Australia's participation in the Cairns Group, the release of the 1987 White Paper, the Garnaut Report, and Australia's efforts to establish APEC. All these led to the birth of a new look foreign policy for Australia, subsequently released in the 1989 ministerial statement of the Minister for Foreign Affairs and Trade.

The period of the Labor government brought two major changes to Australian foreign policy. The power of the Soviet Union dramatically declined in part as a result of US pressure supported by Australian policy, and this served to diminish the importance of the geo-strategic and military components of Australian foreign relations. By the same token, the economic crisis of the early 1980s, which had assisted the ALP to power, had also highlighted significant areas of weakness in the Australian economy. As it became clear that they would only be resolved through trade globalisation, the economic dimension of Australian foreign relations became more important. By the time the 1990 election campaign commenced, the new policy was widely recognised and accepted in Australia.

CHAPTER FIVE

AN INCREASING ACTIVE ROLE:

INDONESIA'S FOREIGN POLICY IN THE 1980s

After the Soeharto government assumed power in 1966, Indonesia adopted a foreign policy which gave economic considerations primacy. During the 1980s, Indonesia maintained this position and began to play a more active role at international forums. This chapter explores this change. However, it begins by looking at some underlying principles of Indonesia's foreign policy. An assessment of the implementation of these principles follows.

Independent and Active

Indonesia declared its independence on 17 August 1945. In the subsequent revolutionary struggle to retain independence from the Netherlands, the former colonising power, there was no time for the new government to formulate an official statement of foreign policy. It was not until 2 September 1948, that Mohammad Hatta, Indonesia's first Vice President in his capacity as Prime Minister, officially stated that an independent and active posture were basic principles of Indonesia's foreign policy. Hatta delivered the statement in front of the Working Committee of Central National Committee of Indonesia (BPKNIP), the forerunner of the present

People's Consultative Assembly, MPR, at Yogyakarta. It was a response to the advocacy of the communists, united in *Front Demokrasi Rakyat,* (People's Democratic Front), who argued strongly that Indonesia should exploit the prevailing international situation (the beginning of the Cold War) by positioning itself firmly with either the Soviet Union or the United States of America (USA).[1] Although agreeing with the proposition —that Indonesia should be able to exploit international situation— Hatta's statement strongly rejected the suggestion that Indonesia should align itself with either block. He argued, rather, that Indonesia should avoid this and struggle instead to retain the capacity to determine its own position. Self-reliance, therefore, was very important.[2]

A more detailed and wider elaboration of independent and active principles appeared in Hatta's article, published in 1953. By 'independent' he meant that Indonesia would refuse to play favourites between the two deeply opposed blocks, but instead would take its own way in handling various international problems. The active principle was to be demonstrated by Indonesia's constant efforts to work vigorously to maintain peace and to reduce the tensions generated by the rivalry between the two blocks. Indonesia preferred to do this by supporting of the majority of members of the United Nations (UN), and by building and maintaining friendly relations with any country on the basis of mutual respect. Furthermore, Hatta indicated that independence was distinctly different to one of neutrality which implics a policy of "the impartiality of one state towards two or more belligerent states" and contained an "antisocial status." As a member of the UN, argued Hatta, Indonesia was

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[1] J. Soedjati Djiwandono, "Indonesia's Post Cold War Foreign Policy," *The Indonesian Quarterly,* Vol. 22 no. 2, 1994, p. 92.

[2] Mohammad Hatta, *Mendayung Antara Dua Karang,* Jakarta, Bulan Bintang, 1976.

committed to international solidarity and its principles were designed therefore without reference to belligerent states and were instead aimed at upholding and strengthening peace. The central aspect, therefore, of an independent policy has been an attempt to seek friendship with any country regardless of block alignment, on a basis of respect for mutual independence. Hatta insisted, moreover, that the prosperity of the people was the main target, and an independent and sovereign Indonesia was simply a prerequisite achieving it. Indonesia's foreign policy practice can be summed up as "a policy of being a friend of all, an enemy of none."[3]

It is clear that at the time Hatta delivered his initial statement and then published it, the Cold War excited a significant influence on the basic principles of Indonesia's foreign policy. It was constructed in the setting of intense rivalry between the Soviet Union with its communist ideology on the one hand, and the US with its belief in liberal-capitalism on the other. Indonesia's foreign policy also reflected a powerful anti-colonialism and strong feelings of nationalism which had their origins in Indonesia's long history of colonisation and rule by a Western imperialist power. The experience had taught Indonesians to appreciate unity and the need to sustain dignity, independence, and sovereignty. Early studies concluded that this ethos lay behind 'the independent and active' approach in Indonesia's foreign policy.[4] The struggle to retain independence from the Netherlands built nationalism and unity into a unique force. It meant more than just the task to forging an array of different ethnic groups into one united nation. It guided Indonesia's relations with the world outside, without it

[3] Mohammad Hatta, "Indonesia's Foreign Policy," *Foreign Affairs*, Vol. 31 no. 3, 1953, pp. 441-52.

[4] Ide Anak Agung Gde Agung, *Twenty Years of Indonesian Foreign Policy, 1945-1965*, The Haque and Paris, Monton & co, 1973; and Michael Leifer, *Indonesia's Foreign Policy*, London, Boston, and Sydney, George Allen and Unwin, 1983.

seeking superiority over any nation. It is, nonetheless, inward-looking in nature, designed "to build a sense of oneness among the peoples and to maximise the country's independence in the international arena."[5] Thus, it can be said that from the early days of independence, Indonesians have firmly believed that "foreign policy must reflect and promote the national interest, and should be carried out in an orderly manner and based on a set of core values, principles, and premises shared by all Indonesians across a wide range of political, ideological, and cultural differences."[6]

Foreign Policy in Action

During the period of armed revolution (1945-50), Indonesia's foreign policy was mainly aimed to achieving international recognition of its sovereignty as an independent nation. The policy was used as an integral part of national revolutionary tactics, aimed at defeating the Netherlands' efforts to regain power in Indonesia. Indonesia's active diplomacy began after initial talks on matters relating to the recognition of independence failed in 1945. The Netherlands was reluctant to negotiate because it viewed Hatta, Vice President and chair of Indonesian delegation in the negotiation, as a Japanese collaborator. This forced Indonesia to change tactics, and on 14 November 1945 Sutan ~~Shahrir~~ Sjahrir was appointed as Prime Minister and took over Hatta's role in the negotiation with the Netherlands. Shahrir's reputation as a nationalist-democrat and a western educated figure proved advantageous in diplomatic negotiations. He was an outstanding western intellectual and publicly

[5] Dewi Fortuna Anwar, "Indonesia's Foreign and Defence Policies," in Colin Brown, ed., Indonesia, dealing with a neighbour, St. Leonards, New South Wales, Allen and Unwin, 1996, p. 35.

[6] Rizal Sukma, "The Evolution of Indonesia's Foreign Policy, an Indonesian View," *Asian Survey*, Vol. 35 no. 3, 1995, pp. 305-6.

known for his refusal to collaborate with the Japanese. Shahrir also held the portfolio of Foreign Minister and began tough negotiations with the Netherlands, with a mediation role being given to British military authorities. Nonetheless, the bottom-line of Shahrir's approach was 'Indonesia's right to self-determination.'[7]

By the 25th March 1947, under Shahrir's guidance, Indonesia's diplomatic approach appeared to be successful, particularly when the Linggarjati Agreement was concluded, in which Indonesia's *de facto* authority over Jawa, Sumatra, and Madura, was recognised by the Netherlands, while other territories were to be gradually be included. However, the Netherlands' unilateral decision to use military forces to attack Indonesia in 1947 and 1948 put a stop to Shahrir's initial diplomatic negotiations. The attacks re-awakened Indonesian anti colonial and nationalist feelings and had the effect of expanding the campaign for Indonesian sovereignty by various nationalist movements. The nationalist-Left movement challenged Shahrir to take a tougher approach, but his position was secured by the full support of President Soekarno and Vice President Mohammad Hatta. However, Shahrir's sudden resignation in July 1949 subsequently diminished the strength of Indonesia's active diplomacy, and indeed it ended Indonesia's direct negotiations with the Netherlands. The dispute between the Netherlands and Indonesia was then brought into the UN, by the Indian and Australian governments. A series of negotiations followed under the auspices of the UN's Goodwill Commission for Indonesia.

Initially, agreement between the Netherlands and the Indonesian government seemed unlikely. The situation was becoming increasingly difficult for the Indonesian

[7] Michael Leifer, *op. cit.*, p. 8.

government because, almost at the same time (1948), a communist rebellion erupted in Madiun, East Java. The rebellion attracted the attention of the US government which was very apprehensive about the possibility of control of Indonesia by communist forces. The US worried that the longer the Netherlands held a tough position on Indonesia, the weaker the latter would be, and the easier the communists would find it to get control of Indonesia. This prompted the US to immediately pressure the Netherlands to withdraw from its position over Indonesia. The US threatened to exclude the Netherlands from the Marshall Plan project and its aid program if it did not change its claim. The Netherlands had little choice and agreed to negotiate. ~~On 27 December~~ In 1949, a peace conference, known as the Round Table Conference, took place in the Hague. An agreement was concluded on 27 December in which the Netherlands recognised the sovereignty of Indonesia's independence and agreed to include the territory covered by the former Dutch East Indies. Unfortunately, the conference did not resolve all matters in dispute. The crucial point concerned the status of West New Guinea or West Irian (later known as Irian Jaya) which was part of the former Dutch East Indies' territory. According to the Round Table Conference, West New Guinea's status would remain unchanged, that is, it would remain in Dutch hands, and would be renegotiated after one year.

However, the decision to exclude West New Guinea from the territory that was recognised by the Netherlands, made the Indonesian government feel that its attempt to integrate the whole 'Indonesia' had not been fulfilled. Subsequently, Indonesia directed its foreign policy to secure the transfer of West New Guinea. This was driven by the idea that Indonesia's unity needed to be supported by the sort of

strong national integrity, that was shown during the struggle against the Netherlands' military actions in 1947 and 1948. When the Netherlands did not signal any indication that it would resume negotiation on the status of West New Guinea, Indonesia intensified its campaign to integrate West New Guinea. In 1950 President Soekarno abolished the federal structure of Indonesia's system of government, originally formed by the Netherlands during the Linggarjati Agreement. He viewed the structure as a potential threat to Indonesia's unity and future sovereignty. Soekarno was aware that the structure would give plenty of opportunity for separatist groups to consolidate strength and launch attacks against the central government. It was at this time, 1950, that Indonesia joined the UN believing that the UN was an effective international institution that could play a significant role in speeding up the process of decolonisation. Indonesia expected that by joining the UN, the task of securing the transfer of West New Guinea from the Netherlands would be made easier.

The situation, however, proved to be otherwise. Indonesia found it faced difficulties in renegotiating the status of West New Guinea with the Netherlands. Indonesia was disappointed at the slow pace and lack of clarity from the Dutch government concerning its commitment to the negotiation process. This was not improved by the initial reluctance of Western countries to support Indonesia's effort. Australia, for example, deliberately collaborated and campaigned with the Netherlands to block Indonesia's move to obtain majority support in the UN. By this time, Indonesia faced many economic problems, partly due to the debt burden it inherited from the former Dutch East Indies government. All these experiences drove Indonesia to not just distance itself from the Western block, but to take an increasing anti-

Western attitude. This was soon manifested in Indonesia's efforts to associate with other developing countries experiencing a similar situation.

In 1955, Indonesia hosted the first Asia-Africa Conference in Bandung. There is no doubt that the conference symbolised Indonesia's opposition to colonialism, and reflected the desires of the participants to maintain their independence from new forms of imperialism. Soekarno declared during his speech at the conference, that despite many differences, countries in Asia and Africa were united by a common dislike of colonialism and racism.[8] Subsequently, Soekarno used that rising tide of nationalist and anti-colonialist sentiment to speed up his campaign for the take over of West New Guinea. He made preparations for a military action following the failure of the Netherlands and his own government to reach agreement regarding negotiations. In response to the West's reluctance to support Indonesia in its negotiation efforts, Soekarno appealed to the Soviet Union for military assistance. A huge amount of military equipment was quickly made available and Indonesia was ready to expedite its military operation.

Faced by these new developments, the US and the United Nations became seriously concerned. Under the Kennedy administration, the US took the initiative and began by exerting some diplomatic influence. It approached the Netherlands and persuaded Indonesia to return to the negotiation option. Kennedy, with the enthusiastic assistance and support of U Thant, the UN Secretary General, was successful in having both sides agree to negotiate the dispute at the UN. In 1962, the matter was settled and West New Guinea was formally handed over to Indonesia.

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[8] Sukarno, "Let a New Asia and Africa Be Born," in Herbert Feith and Lance Castles, eds., *Indonesian Political Thinking 1945-1965*, Ithaca and London, Cornell University Press, 1970, pp. 454-60.

West New Guinea became West Irian (*Irian Barat*), but following a UN sponsored vote for self determination in 1968, it became Irian Jaya.

Having gained West Irian, Soekarno seemed to believe that his anti-Western stance would be supported by other developing countries. Partly fed by his personal ambition, Soekarno was certain that there was considerable domestic support for his flamboyant political style. The Indonesian Communist Party (PKI) watched this trend closely and saw an opportunity to gain political control. The PKI supported Soekarno when he moved Indonesia's foreign policy from its original principles towards a Leftist position by deliberately declaring the creation of the Jakarta - Pnom Penh - Pyongyang - Peking (Beijing) axis. There was significant communist support, for speeches Soekarno made about the need to establish New Emerging Forces, consisting of revolutionary countries in Asia, Africa, and Latin America. These were specifically aimed at opposing so-called the Old Established Forces of Western capitalist powers, which, according to Soekarno were seeking to pursue a new imperialist style. He argued that,

> imperialism ... is a system that makes up a single whole [because] they claw at each other like wolves when they are fighting over riches and loot, but they help each other when they have to deal with us. [and]Just see how the United States, West Germany, Israel unite to humiliate our brothers the Arab nations! ... how the British and the Americans unite to preserve "Malaysia," that puppet state, as a force hostile to the Republic of Indonesia! ... how virtually all the imperialists unite to defend the racialist Verwoerd government and defend apartheid in general![9]

In promoting his anti-Western and anti-imperialist stance, in 1962 Soekarno openly opposed the creation of Malaysia, calling it an artificial product of British

[9] Sukarno, "Storming the Last Bulwarks of Imperialism," *ibid,* p. 467.

imperialism. With the strong support of PKI, Soekarno strengthened his position by arguing that Malaysia was a neo-colonialism project designed to encircle Indonesia, and for that reason it had to be totally opposed.[10] Soekarno's toughest anti Western policy play was to pull Indonesia out of the UN in January 1965. He was hoping that the creation of New Emerging Forces might be a competitor to the UN, a forum which Soekarno believed represented Western interests too greatly.

However, Soekarno's dominance ended abruptly after an abortive coup by the PKI on 30 September 1965. The Indonesian military successfully defeated the coup and took control of Indonesian politics under the leadership of President Soeharto. What remained was an image of Indonesia as an aggressive country and a regional bully. Its image abroad was tarnished particularly after its pursuit of the confrontation policy toward Malaysia and the West.[11] Internally, Indonesia was facing economic chaos, with inflation skyrocketing to hundreds of per cent, domestic infrastructure in ruins and general economic outlook was poor. Foreign reserves in Indonesia's Central Bank, Bank Indonesia, were almost nil.[12]

Pragmatic and Realistic

After a bitter transition period, in which hundreds of thousands of supporters of the PKI were destroyed and Soekarno resigned, the New Order Government, led by President Soeharto, was sworn in 1968. Faced with the chaotic economic

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[10] G. Modelski, *New Emerging Forces: Documents on the Ideology of Indonesian Foreign Policy*, Canberra, Australian National University Press, 1963, pp. 74-5.

[11] O. Sutomo Roesnadi, "Indonesia's Foreign Policy," ISEAS, *Trends in Indonesia*, Singapore, Singapore University Press, 1972, p. 62.

[12] Sabam Siagian, "Indonesia's Foreign Policy and Its Relations With Australia," *The Sydney Papers*, Vol. 6 no. 3, Winter 1994, p. 58.

situation, the new government had no option but to utilise all its resources to improve the national economy. All efforts were made towards one goal, that of restoring the national economy, and in this, foreign policy was no exception. The new government believed that Soekarno's foreign policy excesses had driven Indonesia away from its original principles. Confrontation policy and the decision to quit the UN had tarnished Indonesia's image abroad, and resulted in unfriendly relations with many Western countries. The new government saw these as obstacles in its efforts to restore Indonesia's economy and realised that domestic resources could not be maximised without the cooperation of developed nations. And for this, Indonesia needed to return foreign policy to its original principles.

Its priority was to create a friendly environment through improving Indonesia's image overseas. Adam Malik, who was appointed as Deputy Premier for Political Affairs and Foreign Minister in 1966, promised that the Indonesian government would immediately re-evaluate its foreign policy, and that it would seek to work together with other nations. A sharp statement came from General Soeharto, then Caretaker President, in his New Year message on 31 December 1966. Soeharto was quoted saying that, "in order to achieve solidarity between nations in the world in general and Asia-Africa in particular, an arrogant attitude, Indonesia's glaring style of leadership, pretending to be a pioneer, champion, all had been left, and foreign policy in the years to come will be directed to improve [Indonesia's] foreign relations."[13]

[13] Quoted in Bantarto Bandoro, ed., *Hubungan Luar Negeri Indonesia Selama Orde Baru,* Jakarta, CSIS, 1994, p. 2.

Evidence for this change came immediately when Adam Malik announced the end of confrontation policy,[14] followed by active diplomacy to form the Association of South East Asian Nations (ASEAN), officially established on 8 August 1967, and addressed the problem of Indonesia's image at the international forum by immediately announcing that Indonesia would rejoin the UN. Comprising Indonesia, Malaysia, the Philippines, Thailand, and Singapore, ASEAN was formally established as a regional group for economic cooperation, aimed at increasing the economic development of member countries.[15] However, ASEAN's most important contribution at the time was to establish confidence-building measures between members, which would then guarantee regional stability as a corner-stone for continued economic development. As one observer later argued, the high priority Indonesia has given to ASEAN has been due to the central role ASEAN has played in maintaining peace and stability in the region. It has created a relatively harmonious relationship between Indonesia and countries in the region. The stability provided has allowed the Indonesian government to be less apprehensive about the security of its far-flung borders, and concentrate its attention and resources on internal development.[16]

As well as these efforts, the new government added to other principles to its foreign policy philosophy – those of realism and pragmatism. The government maintained that foreign policy has to be realistic, meaning that an active foreign policy

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[14] For a detail explanation of how confrontation policy was ended see Franklin B. Weinstein, *Indonesia Abandons Confrontation, An Inquiry Into the Functions of Indonesian Foreign Policy,* Ithaca, Modern Indonesian Project, Cornell University, 1969.

[15] See for examples Allison Broinowski, ed., *Understanding ASEAN,* London and Canberra, Macmillan, 1982; and Ronald D. Palmer and Thomas J. Reckford, *Building ASEAN: 20 Years of Southeast Asian Cooperation,* New York, Praeger, 1987.

[16] Dewi Fortuna Anwar, *op. cit.*, p. 37-8; and for more elaboration see Dewi Fortuna Khaidir-Anwar, *Indonesia in ASEAN: Foreign Policy and Regionalism,* New York and Singapore, St. Martin's Press, 1994.

has to be supported by the capacity and strength to influence outcomes, and this would depend on the people's economic prosperity. Foreign policy had to be pragmatic, because economic development and prosperity could only be properly obtained by making priorities. It prioritising, leaders needed to be flexible and able to co-operate and build alliances with any country, regardless of ideology, so long as that country did not threaten Indonesia's sovereignty. A truly independent and active foreign policy would only be achieved when Indonesia had acquired the necessary strength.[17] These principles were officially approved by a decision made by the Provisional People's Consultative Assembly (*MPRS; Majelis Permusyawaratan Rakyat Sementara*) in 1966. The decision stated that restoring confidence and obtaining respect from other countries were a priority, and implementation, "should be carried out with flexibility in approach and response so that it is directed towards the National interest, especially giving priority to the People's economic interests."[18]

Indonesia's efforts to change its bad international image succeeded. In apparent response to negotiations around aid, Western countries established the Inter Governmental Group on Indonesia (IGGI) in 1967. It was set up as a consortium comprising Japan and several Western capitalist countries, with the task of managing and directing aid and grants that Indonesia proposed for its economic development. Despite diplomatic efforts for aid from Western countries, Indonesia maintained its relationship with other communist countries. The exception was Indonesia's relationship with China. In 1967 Indonesia suspended diplomatic relations on the grounds that China's continued support for Indonesia's communists was a serious

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[17] *Orba, A Guide to The New Order Government,* Jakarta, pp. 26-7.

[18] Department of Information, *Decisions of the Fourth Plenary Session of the Madjelis Permusjawaratan Rakjat Sementara, 20th June-5th July 1966,* Jakarta, 1966, p. 17.

threat to Indonesia's sovereignty. However, this did not change Indonesia's position on the one-China policy. Furthermore, Indonesia did not vote against China when it applied for admission to the UN in 1970, although, at the time, Indonesia's Foreign Minister, Adam Malik, was the President of the 26th UN General Assembly.[19] In short, Indonesia's pragmatic and realistic approach in foreign policy was accompanied by a low profile diplomatic style and it was generally concerned with many issues, its interests were bound up more closely with regional issues. It was a logical outcome of such policy that the ASEAN region would become its focus. Together with other ASEAN countries, Indonesia has been able to address security concerns in the region, and this has helped Indonesia to concentrate its resources toward domestic economic development.

The most contentious issue, however, has been Indonesia's decision to take over East Timor, the former Portuguese colony, in 1975. The decision, obviously, prompted public outcry in a number of countries. However, Indonesia's argument about a communist threat developing in East Timor, and under the shadow of Cold War, seemed to be a major factor making most countries 'silent' to Indonesia's decision to take over East Timor. Portugal's uncertain policy to the take over of East Timor by Indonesia meant the issue did not have much impact to Indonesia's foreign policy in the 1970s.[20] Nonetheless, the took over of East Timor is at the root of many of the difficulties Indonesia is currently facing.

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[19] O. Sutomo Roesnadi, *op. cit.*, p. 65.

[20] Adam Schwarz, *A Nation in Waiting, Indonesia in the 1990s*, Sydney, Allen & Unwin, 1994, pp. 206-8.

In summary, as well as successfully restoring its economy during the 1970s, Indonesia re-designed its foreign policy objectives to become realistic and achievable. These new objectives included:

> to maintain and foster friendly relations with all countries in the world, regardless of their social systems and ideologies; to promote or maintain international peace and understanding, through or outside the United Nations; to avoid involvement in any conflict with neighbours countries; to create and promote a sphere of stability, tranquillity and peace in and around Indonesia, so that national economic development and political process may continue without any internal or external disturbances; to strengthened the ASEAN regional grouping, [as] determining factor and stabiliser in the Asian region; [and] to work towards neutralisation.[21]

Equally important has been Indonesia's decision to adopt trade policies, replacing aid diplomacy, as an integral part of foreign policy. In short, Indonesia's foreign policy during the 1970s was successful in terms of obtaining financial support from Western capitalist countries and keeping a relatively balanced political relationship with most communist countries.

An Increasing Political Role

After successfully maintaining its low-profile pattern up to the end of the 1970s, Indonesia began to broaden the substance and style of its foreign policy. Some argued this was a move towards a more assertive style.[22] Its first indication was Indonesia's immediate response and active approach toward the Cambodian conflict.

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[21] O. Sutomo Roesnadi, *op. cit,* pp. 72-3.

[22] Michael Heath, *Indonesian Foreign Policy: Towards a More Assertive Style,* Nathan, Griffith University, 1987.

Following the Vietnamese invasion of Cambodia in 1978, Indonesia became apprehensive about the impact this might have on Southeast Asian regional stability. The government held the view that the Cambodian conflict created instability in the near region where Indonesia's foreign policy has been most intensely focused. Indonesia believed that it had the potential to disrupt, and even set back, the economic development of all the countries in the region, and of Indonesia in particular. Within a short period, it succeeded in persuaded the warring partics to sit down and negotiate a diplomatic settlement.

However, in its efforts to achieve a peaceful settlement to the Cambodian conflict, Indonesia faced a dilemma. Indonesia believed that the greatest threat to the stability of the region was China; the fact that Cambodia's Pol Pot regime, backed by China, was ousted by Vietnam inclined Indonesia to favour Vietnam. That Vietnam shared similar experiences with Indonesia in terms of its struggle for independence against a colonial power gave Indonesia another reason to support Vietnam. Thailand, however, held a quite different view. It saw Vietnam, supported by the Soviet Union, as far more dangerous and its closeness to the Cambodian conflict fuelled Thailand's fear that Vietnam might want to realise her historical dream of creating a greater Indochina.

In assessing the situation, Indonesia was aware that the conflict might damage ASEAN's cohesion and did not wish to sacrifice this regional forum, given its importance as a regional stabilising mechanism. ASEAN members responded by nominating Indonesia as its 'interlocutor' in the conflict and urged Indonesia to

increase its diplomatic efforts to mediate between the warring parties.[23] In 1979, ASEAN successfully sponsored two important resolutions concerning Cambodia in the UN: the first to hold Cambodia's seat open in the UN's General Assembly; and the second calling for the withdrawal of foreign troops, elections under the supervision of the UN, and an international conference for assessing the whole situation in Cambodia.[24] By 1986, Indonesian officials had made series of visits to Vietnam and vice versa. Other activities hosted by Indonesia including seminars, official conferences, and multilateral talks in the UN, were all directed to finding solutions to the conflict.

In pursuing its interlocutor role, however, Indonesia found the path far from smooth. Vietnam was reluctant to participate in negotiations pursued by Indonesia on behalf of ASEAN which targeted the withdrawal of Vietnam's troops from Cambodia as part of the resolution. The involvement of China and the Soviet Union also made a resolution difficult to achieve because their enormous power was beyond ASEAN's influence or control. As mentioned previously, there were also still different perceptions of the conflict within ASEAN, particularly between Thailand and Indonesia. In addition, there was the dual track strategy by the Indonesian Department of Foreign Affairs and the Indonesian Defence Forces toward Vietnam, and while the Department of Foreign Affairs tended to give priority to negotiations through diplomatic channels, the Defence Forces, based on their own strategic concerns about China as a greater threat, favoured directly approaching Vietnam.[25]

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[23] Michael R. J. Vatikiotis, *Indonesian Politics under Suharto, Order, Development and Pressure for Change*, new & updated edition, London and New York, Routledge, 1994, p. 182.

[24] Andrew J. MacIntyre, "Interpreting Indonesian Foreign Policy, the Case of Kampuchea, 1979-1986," *Asian Survey*, Vol. 27 no. 5, 1987, p. 516.

[25] *Ibid.*

All these situations gave Vietnam the opportunity to exploit these differences in approach and justify its own reluctance to accommodate, which, consequently, brought the disappointing result. Nonetheless, Indonesia had tried to act responsibly in playing its interlocutor role.

This initial failure to settle the conflict, however, did not discourage Indonesia in its active role. In the new international climate of the mid 1980s, following Gorbachev's rise to the leadership in the Soviet Union in 1985 and his immediate announcement to withdraw Soviet troops from Vietnam, Indonesia launched a series of new approaches to the Cambodian conflict. In July 1988 and February 1989, Indonesia sponsored the first and second Jakarta Informal Meeting (JIM). It was an informal meeting, under the guise of a cocktail party, which allowed all parties to the Cambodian conflict to speak directly to one another and discuss possible ways to settle their disputes. Although the two JIMs did not produce many agreements, they were still significant politically as it was under the auspices of the Indonesian government at the initial JIM that warring group to the conflict met and negotiated directly for the first time. Later, in July-August 1989, another conference was held in Paris. This was known as the Paris International Conference on Cambodia (PICC) and was co-chaired by France and Indonesia. Indonesia was chosen on the grounds that it had already taken an outstanding role, including the hosting of JIMs I and II. Two more meetings, the Jakarta Informal Meetings on Cambodia, were held in Indonesia in February and September 1990. These came up with positive results. The parties settled on an implementation process for the framework mapped out in the PICC, which subsequently led to the signing of the comprehensive agreement in Paris in

1991. While the whole process was not alway easy, it nonetheless, indicated a positive diplomatic role for Indonesia.

The second demonstration of Indonesia's more active foreign policy was its increased attention to the South Pacific region, as an area which had been growing in importance in Indonesian eyes since the 1970s. Decision No. 4 of the Peoples Consultative Assembly (*Ketetapan Majelis Permusyawaratan Rakyat Republik Indonesia/ MPR RI No. 4*) of the 1973's National Guidelines (*Garis-Garis Besar Haluan Negara/ GBHN*) spelled out the view of the government towards the region which was essentially that it would take whatever steps were necessary to achieve stability in Southeast Asia and the Southwest Pacific.[26] Indonesia considered the region of Southwest Pacific to be the second layer of its overall foreign policy. It should be noted, however, that with exception of the Papua New Guinea (PNG), there was almost no interaction between Indonesia and the countries in the South Pacific region during the 1970s.

In 1983, Mochtar Kusumaatmadja, then Indonesian Foreign Minister, made a marathon visit to PNG, FIJI, Western Samoa, and the Solomon Islands. In the PNG, Mochtar's visit resulted in closer ties with that country, something that they had been working towards since PNG gained independence in 1975. Between 1978 and 1980 President Soeharto and PNG's Prime Minister met three times, similarly, the PNG and Indonesian Foreign Ministers met twice in 1978. At the top of the agenda at these meetings were two items: the Indonesia-PNG border; and the issue of the Free Papua Movement (*Organisasi Papua Merdeka/ OPM*), which wanted to

[26] Asnani Usman, "Indonesia dan Pasifik Selatan," in Bantarto Bandoro, ed., *op. cit.*, p. 187.

secede from Indonesia and most of whose activities were consolidated and coordinated from within PNG's territory.[27] Furthermore, it was during Mochtar's marathon visit that Indonesia offered assistance under the scheme known as Technical Cooperation Amongst Developing Countries (TCDC). Interestingly, the offer got a positive response from most countries in the region. PNG was interested in agriculture, mining, manufacturing, fisheries, education, and culture; the Solomon Islands in agriculture, fisheries, and navigation; Western Samoa in education, agriculture, navigation, and flight carriers; and Fiji in intellectual/ academic exchanges.[28] Besides these matter, Indonesia began to turn its attention to political events in the region. The military coup by Colonel Rabuka in Fiji in 1987 was one such event. When Rabuka requested (military) helicopter assistance during his visit to Jakarta in 1987, the Indonesian government politely refused, although it did agree to develop a trade relationship. Indonesia's relationship with New Caledonia was different again, and, together with other ASEAN members, Indonesia support the New Caledonian independence movement, under the guidance of the Front Liberation National Kanak Socialist (FLNKS).[29]

Despite statements from Mochtar that it was the appropriate time for Indonesia to play more attention to the South Pacific region, he was forced to deny allegations that neglect of the South Pacific in Indonesia's foreign policy had been deliberate. In defence, Mochtar argued that many issues and problems in the

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[27] Robin Osborne, *Indonesia's Secret War: the Guerilla Struggle in Irian Jaya,* Sydney, Allen & Unwin, 1985.

[28] Asnani Usman, *op. cit.,* p. 196.

[29] For description of the independence movement see Anita Butler, "Passionate Ambivalence: New Caledonia and Franco-Australian Relations in the Pacific," Honours Thesis, Department of Politics and French, the University of Adelaide, 1995, chapter one.

Southeast Asian region during the 1970s had absorbed much of Indonesia's attention, and that at about the same time, most South Pacific countries were heavily involved in their own decolonisation processes.[30] Colin Brown, however, has identified two strong triggers for Indonesia's more active role in the South Pacific region. The first relates to Indonesia's view of its own place within the region. A country as large as Indonesia, argues Brown, is understandably keen to seek and pursue a more active role in the international arena. As a matter of fact, there has been a natural attraction to the South Pacific region as the eastern part of Indonesia is populated by Melanesians, the ethnic group which occupies much of the South Pacific. This, argues Brown, has contributed to Indonesia feeling a part of the Pacific region, both geographically and ethnically. The second trigger has been the position taken by the South Pacific countries over the East Timor resolution at the UN. Indonesia wanted to secure and maintain the support these countries have given over the issue. With the exception of Vanuatu, most countries in South Pacific supported Indonesia's position over the General Assembly resolution on East Timor.[31]

In summary, all of these events marked the beginning of a new role for Indonesia in the South Pacific region. Indonesia showed, by offering technical assistance for example, that it wanted to build a positive image among the countries in the region and intended to be an important part of the region's development. Subsequent to the criticism about neglect, Indonesia has increased its foreign policy attention to the South Pacific region.

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[30] Asnani Usman, *loc. cit.*

[31] Colin Brown "Indonesia, Southwest Pacific and Australia," *World Review*, Vol. 127 no. 2, June 1988, p. 37-55.

Indonesia's decision to officially commemorate the 30th anniversary of the Asia-Africa Conference at Bandung in April 1985 was a further indication of a deliberate decision to take more active role at international forums. For the first time, Indonesia took charge of the celebrations which involved eighty nations. Despite its symbolic effort to reaffirm the importance of the 1955 Bandung Conference, declaring the need to create a peace world, Indonesia took a chance in giving a leading voice among the participants and through them to the larger stage of the international community. It was during these commemorations that Jakarta began campaigning for support for the position of chair of the Non-Alignment Movement (NAM), a position Indonesia later held from 1992 to 1995. Politically, this was very important for Indonesia, because until 1985 Indonesia was the only founding member of NAM which had not yet hosted its summit meeting. In October 1985, the campaign was given some momentum when President Soeharto was chosen to speak on behalf of developing countries from the southern hemisphere at a meeting of the UN's Food and Agriculture Organisation in Rome. Soeharto was chosen in recognition of Indonesia's success in achieving rice self-sufficiency. It was another opportunity for Indonesia to signal its increasingly active role in the international arena.

Indonesia maintained this momentum by steadily expanding economic relations with many communist countries, previously neglected after President Soeharto came to office. The Indonesian government began to think about the possibility of direct trade with China. This was a significant step as the Indonesian government had severed diplomatic relations with China following allegations of Chinese involvement in the communist coup attempt of September 1965. In November 1984, Indonesia's

Foreign Minister, Mochtar Kusumaatmadja, in the speech to the American Chamber of Commerce in Jakarta declared that "Jakarta was prepared to establish direct trade links with Beijing."[32] The negotiations which followed were handled by the Indonesian Chamber of Commerce (KADIN) and its Chinese counterpart, China's trade delegation. Both sides concluded a memorandum of understanding on bilateral trade in July 1985. The memorandum not only had economic significance, but had particular political implications because it paved the way for China and Indonesia to reach full political normalisation in 1990.[33]

Similar efforts were made to expand economic relations with the Soviet Union. In 1984, Mochtar Kusumaatmadja and the Indonesian Coordinating Minister for the Economy, Finance and Industry, Ali Wardhana, made separate visits to the Soviet Union. Up until that point, the issue of communism was the greatest contributing factor to the low level of trade between Indonesian and the Soviet Union. Indonesia's suspicion of communism discouraged and hampered it from establishing an appropriate trade mechanism with the Soviet Union. However, as the result of these visits, both countries agreed to increase mutual political trust which would support efforts to broaden their economic relations. While Indonesian officials travelled overseas, various official visits were made to Indonesia by delegations from Eastern Europe countries including Bulgaria, Romania, Hungary, Yugoslavia, and the Soviet Union in 1985. This diplomatic momentum went further when, in 1986, President Soeharto made a marathon visit to a considerable number of Eastern Europe countries, during which he openly expressed Indonesia's intention to diversify its

[32] Michael Heath, *op. cit.*, p.13.

[33] For a more detail of Indonesia-China relations see Rizal Sukma, "Recent Development in Sino-Indonesia Relations," *Contemporary Southeast Asia,* Vol. 16 no. 1, July 1994, pp. 35-45.

trade and export manufactured products to these countries. Despite the economic objectives pursued during these visits, nevertheless, they were all made to balance the close economic ties which existed between Indonesia and Western capitalist countries.

Indonesia displayed its increasingly active role in other forums including the Cairns Group and APEC. When APEC was established in 1989, Indonesia responded positively but cautiously. It was cautious of the considerable potential benefit of APEC, including its possible impact on the region and particularly its economic implications for ASEAN, to which Indonesia was strongly committed. However, in due course, particularly during the Bogor Summit in 1994, Indonesia displayed its positive diplomatic support towards APEC's grand plan of free trade.[34]

All of these events and actions point to the more active role taken by Indonesia's foreign policy. It appears that the Indonesian government believed it was time to fulfil its international obligation to promote peace through global cooperation. This duty had been laid out in the Preamble to Indonesia's 1945 constitution, but after 1966 had been rather left behind due to Indonesia's reorganisation of priorities towards its domestic economy. However, the economic achievements made during the 1970s has given the Indonesian government a degree of confidence in flexing its diplomatic muscles in pursuit of policy objectives.

As a nation, Indonesia relied mostly on exports of oil and natural resources. In the 1970s, Indonesia's economic growth benefited from these exports. However, in the early 1980s, Indonesia's primary exports were effected by the international economic recession. Prices of oil and other primary commodity fell and demand for

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[34] Teuku Rezasyah, "The Changing Attitude of Australia and Indonesia Towards APEC," *The Indonesian Quarterly*, Vol. 22 no. 4, 1994, pp. 320-32; and Hadi Soesastro, ed., *Indonesian Perspectives on APEC and Regional Cooperation in Asia Pacific*, Jakarta, CSIS, 1994.

primary products from industrial countries declined. This was followed by increasingly tight trade policies of industrial countries such as the US, Japan, and Western Europe. At the same time, there was increased interest in building new regional economic groups, of which the European Union was the most significant. These moves forced Indonesia to think about alternative market access. It is in the light of this situation that, since the mid 1980s, Indonesia has deregulated its domestic economy and diversified exports, while pursuing new markets for those products. Faced with this scenario, foreign policy has been used by the government as an economic instrument, as demonstrated by the trade initiatives with China, the Soviet Union, and the Eastern Europe countries.

Furthermore, while Indonesia was exercising a more active role in international forums, the issue of East Timor became more prominent and more problematic. As the Cold War fizzled out, many countries began to criticise, challenge, and openly question Indonesia's activities in East Timor. The criticism mostly came from countries with which Indonesia either had not had a significant relationship, or to which Indonesia had paid little attention. These countries, particularly in Africa, the South Pacific, and other former Portuguese colonies, have constantly voted against Indonesia at the UN General Assembly, and have inflicted considerable damage on Indonesia's political reputation. As a result, Indonesia has been forced to reassess its diplomatic priorities. As mentioned previously, it was for this reason Indonesia has begun to play a more active role with countries in the South Pacific region. Similar approaches were taken toward various African countries in the late 1980s. It can be argued that the increasing importance of the East Timor issue to

many countries has prompted the Indonesian government to make more aggressive diplomatic efforts to win international support for its position. It has also had the effect of expanding Indonesia's foreign policy focus from an ASEAN-centred one to one which is more globally oriented.

In summary, the primacy of the economic dimension in Indonesia's foreign policy has prevailed since the Soeharto government assumed power in 1966. From the 1970s Indonesia deliberately pursued an aid-determined diplomatic policy toward the Western countries. In conducting this policy, Indonesia has taken a low profile, and a pragmatic and realistic approach, all of which are reflected in the regional priorities it now makes. Throughout the 1980s, Indonesia's foreign policy became more active politically, but still maintained its economic focus.

PART THREE

MOVING TOWARDS

A STRONG BILATERAL RELATIONSHIP

1986 - 1996

CHAPTER SIX

POLITICAL RELATIONSHIP

The Creation of A New Discourse

Part one revealed the pattern of fluctuations in the bilateral relationship between Indonesia and Australia and how previous studies explained it. A new foundation for the relationship was built when the Soeharto government came to office in 1966 but the ups and downs of the bilateral relationship continued. The lowest point was reached during the row over David Jenkins' article, the immediate effect of which was to considerably sour the relationship. This chapter examines the attitudes of the Indonesian and Australian governments since that time.

The main argument in this chapter is that the effects of the Jenkins affair have driven the two governments to find ways in which they might manage the bilateral relationship in a more balanced and workable manner. The chapter begins by exploring the diplomatic efforts assigned by both governments until 1989, when they agreed to establish a new framework for the relationship. It argues that by signing the new framework, both governments established a new discourse of managing the bilateral relationship.[1] A detailed analysis is made of the provisions of the framework

[1] "Discourse are systematically-organized sets of statements which give expression to the meanings and values of an institution. Beyond that, they define, describe and delimit what it is possible to say and not possible to say (and by extension – what it is possible to do or not to do) with respect to the area of concern of that institution, whether marginally or centrally," G. R. Kress, *Linguistic Process in Sociocultural Practice,* Victoria, Deakin University Press, 1985, p. 25. Discourse here is defined as a set of systematic statements and organised arguments which give meanings to a framework of cooperation that has been agreed to by Australia and Indonesia, and this agreement describes what is, and how the governments of Australia and Indonesia are going to manage, the future bilateral relationship.

and how they affect the Indonesian and Australian governments' attitudes. In addition, the chapter also explores the leadership factor and argues that this has contributed in a major way to the evolution of the new discourse. Concluding remarks which draw from several case studies will end the chapter.

Reviving the Relationship

Despite their differences over the Jenkins affair, the Australian and the Indonesian governments shared one common view: they did not want the situation to worsen and they subsequently made the necessary efforts to revive the relationship. Resuscitating the bilateral relationship, however, not only consumed considerable time but was also hindered, initially, by a different viewpoints from within the Indonesian elites. The hardliners, predominantly within the military, tended to take a tough stance and a 'no compromise' position. This was demonstrated on at least two occasions. The first occurred on 4 September 1986 when Indonesia suddenly withdrew landing rights for the Royal Australian Air Force (RAAF).[2] The second was in October 1986 when the hardliners gave notice to the Australian government that the military would not send students to the Joint Service Staff College for the 1987 academic year, and that it would also stop sending staff to undertake study at the Royal Australian Naval College at Jervis Bay, the Australian Staff College at Queenscliff, and the Royal Australian Air Force Staff College at Fairbairn.[3]

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[2] Greg Earl and Michael Byrnes, "Indonesia bans RAAF landings," *Australian Financial Review*, 5 September 1986, p. 1, 4; Mark Baker, "Jakarta ban on RAAF signals fresh row," *The Age*, 5 September 1986, p. 1; Ross Peake, "Indonesia slaps ban on air force," *The Australian*, 5 September 1986, p. 1; and Milton Cockburn, "Indonesia bans RAAF landing rights," *The Sydney Morning Herald*, 5 September 1986, p. 1.

[3] This issue was raised during the question time, see *Commonwealth Parliamentary Debates*, Senate, Vol. S. 117, 1986, p. 1548 and Vol. S. 118, 1986, p. 2664.

The announcement of the withdrawal of RAAF landing rights surprised Australia because it came without warning or any immediately obvious reason. The Australian Ambassador in Jakarta, Bill Morrison, responded quickly. He met and discussed the issue with General Benni Moerdani, then Commander-in-Chief of Indonesia's Armed Forces, on 8 September 1986. Their meeting ended successfully and Indonesia subsequently withdrew the ban. Shortly after, the Australian Embassy in Jakarta released a statement saying that General Moerdani had given assurances that the practice of granting landing approvals for the RAAF would continue.[4] This quick reversal of the decision seemed to prove correct the early speculation that the ban was a spontaneous reaction from within the Indonesian military over the publication of an academic book by Richard Robison in which Robison discussed and analysed, in more detail, issues similar to those that David Jenkins had raised in his controversial newspaper article.[5] An Australian journalist posted in Jakarta at the time, revealed that the landing rights ban was announced in "a poorly-written note, without letterhead" handed to the Australian Embassy.[6] This may be evidence that the hardliners announced the ban without proper coordination with other related departments, particularly the Department of Foreign Affairs.

In the case of the notification of the ban on sending military staff to study in the Australian Military Colleges, there was no clear indication whether this related to

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[4] Michael Byrnes, "Jakarta backs down, but ducks questions over landing-rights letter," *Australian Financial Review,* 10 September 1986, p. 3; Peter Logue and Paul Austin, "Jakarta backs down over RAAF landings," *The Australian,* 9 September 1986, p. 1; and Michael Byrnes, "Confusion reigns in Indonesian RAAF dispute," *Australian Financial Review,* 12 September 1986, p. 2.

[5] Richard Robison, *Indonesia: the Rise of Capital,* Sydney, Allen & Unwin, 1986.

[6] Michael Byrnes, *Australia and the Asia Game,* St. Leonards, New South Wales, Allen & Unwin, 1994, p. 156.

the cool response caused by the Jenkins affair. However, an Indonesian General who was at Queenscliff College in 1990, acknowledged that part of the reason for the decision was actually Indonesian military grievances over reports on Indonesia by the Australian media, particularly since the Jenkins affair.[7] These two examples indicate the rather uncompromising views within the Indonesian military on matters relating to Indonesia's relationship with Australia in the aftermath of the Jenkins affair.

In contrast to groups within the military elite was the Indonesian moderate group, led by the then Minister for Foreign Affairs, Mochtar Kusumaatmadja, who adopted a more persuasive approach. Mochtar was unhappy with the visa free entry cancellation and became directly involved in the negotiations to reverse the decision within 24 hours. He was adamant that Indonesia should consider the future of the overall relationship before launching any firm retaliation against Australia. In early May 1986, he stated vigorously to the media that the relationship was getting back to normal.[8] In a similar vein, on 15 May 1986, Mochtar made another careful but diplomatic statement, arguing that, for the future benefits of the bilateral relationship, the two governments should stop quarrelling. He eloquently argued that, "it would be strange if, in the absence of any intentions on the part of the peoples and the governments of the two countries to alter relationships, they nevertheless are changed merely because of the action of one person."[9] This statement was important for two reasons. It conveyed, diplomatically, Indonesia's recognition of the importance of the

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[7] An informal discussion in Adelaide, in May 1995.

[8] "Siapa Dilarang Masuk?" *Tempo*, 3 May 1986; and "Mochtar: links with Australia getting normal," *Canberra Times*, 10 May 1986, p. 1.

[9] Alan Fewster, "Canberra welcome Mochtar's olive branch," *The Weekend Australian*, 17-18 May 1986, p. 4; "Let's end the squabbling, Mochtar tells Australia," *The Age*, 19 May 1986, p. 13; "Indonesia moves to cool squabble," *Canberra Times*, 16 May 1986, p. 3; and "Mochtar plea to end rift," *The Sydney Morning Herald*, 16 May 1986, p. 6.

bilateral relationship, and its intention to improve the relationship. It was a wise response to the reports carried by most of the Australian media about Prime Minister Hawke's statements given during a television interview on Australian-Indonesian relations.[10]

Faced with Mochtar's diplomatic gesture, the Australian government responded positively, and during question time on 29 April 1986, Prime Minister Hawke stated that his government was determined to continue with efforts to establish a constructive and productive relationship. However, Hawke was firm on the issue of the rights of a free press in Australia, and argued strongly in their defence. Hawke insisted that the Indonesian authorities should recognise and accept that Australia is a society that has imperfections, but one of its distinguishing characteristics is the freedom of the press.[11] Equally, Hawke also acknowledged recent difficulties but argued and emphasised strongly that in order for the two governments to work together in the future, they had to put these difficulties behind them.[12] All of these statements and events ultimately meant that both governments were prepared to deepen and enhance their mutual understanding of cultural differences and sensitivities, particularly those related to media operations. Hawke's arguments and suggestions sufficiently contradicted on-going critical reports by the Australian media, which generally described his earlier statements in the television program "Sunday" as indicative of Australia's readiness to take tough stand on

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[10] See, amongst others, Gregory Hywood, "PM warns Indonesia: No more grovelling," *Australian Financial Review,* 5 May 1986, p. 1, 4; Michelle Grattan, "Hawke says his Government will not have a grovelling relationship with Indonesia," *The Age,* 5 May 1986, p. 1; "Standing up to Indonesia," *The Age,* 6 May 1986, p. 13; "We won't grovel to Indonesia, Hawke says," *Canberra Times,* 5 May 1986, p. 1.

[11] *Commonwealth Parliamentary Debates,* House of Rep., Vol. 148, 1986, pp. 2627-8.

[12] *Commonwealth Parliamentary Debates,* House of Rep., Vol. 149, 1986, p. 4550.

Indonesia,[13] to placate Indonesia. Hawke's statements, furthermore, were evidence of Australia's primary intention to repair the bilateral relationship.

The Australian government quickly matched its intention with action. On 17 May 1986, the Australian Minister for Immigration and Ethnic Affairs, Chris Hurford, embarked on a four day visit to Indonesia. It was the first and high level official visit by an Australian to Indonesia since the Jenkins affair. The formal agenda of Hurford's visit related to immigration and refugee matters, however, media reports revealed that the underlying intent was to repair and 're-warm' relationship. For all intent and purposes, the visit was a peace mission. Although it covered sensitive issues such as press freedom and East Timor,[14] the outcome of Hurford's visit seemed successful. The Indonesian government seemed sufficiently at ease to offer Hurford an invitation to visit East Timor.[15] The positive momentum continued when the Australian and the Indonesian Foreign Ministers, Bill Hayden and Mochtar Kusumaatmadja, held an important meeting in Manila on 28 June 1986 to discuss the latest advances of the relationship. Although the ministers did not immediately disclose the outcome of the meeting, the talks appeared successful. A later statement by the Australian Foreign

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[13] See for examples, "Standing up to Indonesia," *The Age,* 6 May 1986, p. 13; John Short, "Hawke signals Suharto that the gloves are off," *The Australian,* 25 April 1986, p. 2; Gregory Hywood, "PM warns Indonesia: no more grovelling," *Australian Financial Review,* 5 May 1986, p. 1, 4; Michelle Grattan, "Hawke says his government will not have a grovelling relationship with Indonesia," *The Age,* 5 May 1986, p. 1; Blanche D'Alpuget, "To only see through their eyes," *The Sydney Morning Herald,* 28 April 1986, p. 1; Peter Hastings, "Who feels culturally sensitive?" *The Sydney Morning Herald,* 28 April 1986, p. 12; Peter Bowers, "We can do without you Indonesia," *The Sydney Morning Herald,* 3 May 1986, p. 27, and Jim Dunn, "Talking straight about Indonesia," *Canberra Times,* 22 April 1986, p. 6.

[14] Michael Byrnes, "Hurford visit aims to rebuild relations," *Australian Financial Review,* 19 May 1986, p. 12; and Endy Bayuni, "Hurford defends press on Indonesian peace mission," *The Australian,* 19 May 1986, p. 1.

[15] Michael Byrnes, "Indonesia's fire appears to be now dying down to a gleam of normality," *Australian Financial Review,* 21 May 1986, p. 14; and Anthony Nagy, "Hurford receives invitation to visit East Timor," *The Age,* 22 May 1986, p. 6.

Minister commenting that it was to be business as usual between Australia and Indonesia, despite the souring of the relationship initiated by the publication of Jenkins' article.

The Manila talks were important for a number of reasons. It was the first time the two ministers most responsible for handling matters related to bilateral relationship held direct official talks since the Jenkins affair, away from the eyes of the media. This was critical because Indonesia felt the Australian media to be a major factor in damaging the relationship. Furthermore, the Manila talks provided an opportunity for the Australian government to explore more closely the nature of the interplay within Indonesian the elite, particularly among 'hardliners' regarding Indonesia's general policies towards Australia. In short, the Manila talks were a critical point because both ministers laid down principles which were instrumental to later diplomatic efforts to revive and enhance the bilateral relationship in a constructive and productive manner.

All problems did not immediately disappear, however. Canberra's efforts in persuading Jakarta to overturn its ban on Australian journalists did not work as quickly as Canberra expected. The last Australian journalist posted to Indonesia, Michael Byrnes from the *Australian Financial Review,* had left Jakarta at the end of 1986 after Indonesia refused to extend his working visa. Indonesia continued with the ban on Australian journalists. In an effort to resolve this, Hayden made another diplomatic move in May 1987. He stopped over in Jakarta on his way to Europe and held important discussions with senior Indonesian officials, his main agenda item

being to urge the lifting of the ban on Australian journalists,[16] which was imposed by the Indonesian government for an indefinite period. Hayden was sure that the longer the journalist ban issue remained unsettled, the more likely it was that further difficulties would arise. As well as having a dialogue with his counterpart, Minister Mochtar, Hayden also had an opportunity to talk to President Soeharto over the issue.

As with the Manila talks, Hayden's Jakarta stopover was successful. In the meeting with President Soeharto, Hayden shared his view with the Indonesian leader that the two countries' government-to-government relationship was in good shape and heading in the right direction.[17] Furthermore, Hayden also received indications, albeit slight, that the media ban issue might be settled soon.[18] This was a diplomatic win for Hayden because, even though Indonesia did not reveal a definite date for the termination of the ban, the Indonesian assurance kept alive chances for Australia to discuss it. To a certain degree, the quick settlement of the ban issue would be another bonus for Hayden in that he would be able to deflect an attack by the Australian domestic press on the way the Hawke government had handled the issue. Obviously, this was politically important for the ALP government, as it faced a federal election in July 1987. Importantly for the ALP government, Hayden achieved his diplomatic success without giving an 'apology' for the damage the Australian press had done, particularly following the Jenkins affair.[19] His efforts to assure Indonesia about the

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[16] "Hayden mends fences in Indonesia," *The Sydney Morning Herald,* 5 May 1987, p. 4; and Michael Byrnes, "Hayden working to heal rift between Canberra - Jakarta," *Australian Financial Review,* 5 May 1987, p. 2.

[17] See answers by the Minister Representing and the Acting Minister for Foreign Affairs, Senator Gareth Evans, during Senate Question Time in *Commonwealth Parliamentary Debates,* Vol. S. 120, 1987, pp. 2289-90.

[18] Ross Peake, "Indonesia may soon lift ban on journalists," *The Australian,* 5 May 1987.

[19] During the saga of the Jenkins affair, demands were raised from within the Indonesian elite, particularly from the hardliners, that Australia should make an apology.

very different roles of the government and the press, and their political and historical relationship, were successful enough for President Soeharto to offer the view that relationship at the government to government level was working well. This implied Indonesia's readiness to distinguish views voiced by the media from policies officially endorsed by government, but equally it signalled Indonesia's readiness to get on with the main job of developing a constructive and productive relationship.

By the end of 1987, the damage to bilateral relations was mended. Negotiations on the seabed boundary in the Timor Gap, postponed unilaterally by Indonesia since April 1986 as a protest to Jenkins' article, resumed. By early 1988, rumours spread that Indonesia would soon gradually terminate the ban on Australian journalists. These were proven correct in February 1988, when Indonesia permitted the Australian Associated Press (AAP) to establish a bureau in Jakarta, ending a 15 month period without any resident Australian journalist posted in Indonesia since the last, Michael Byrnes, had left Jakarta at the end of 1986. The reversal of the ban was soon followed by a visit to Australia by the Indonesian Minister for Tourism, Post and Telecommunications, then Soesilo Soedarman, in August 1988. The minister officially came to attend part of Australia's Bicentennial celebrations, but he also engaged in a number of talks with ministers in Canberra. Given that Soedarman's visit was the first high official visit since Habibie's sudden cancellation of his official trip to Australia in April 1986, it was of considerable significance politically. Despite ending the three year drought on Indonesian ministerial visits to Australia, it signalled strongly that Indonesia was ready to strengthen the relationship. Minister Soedarman himself was very frank about this. When journalists asked what his visit meant, he replied that

Indonesia seriously wanted a closer relationship, and he disputed some opinions in Australia which labelled Indonesia as a neighbour who did not want to know Australia.[20] The fact that the visit took place during Australia's 200 year's anniversary celebration of white settlement, an important moment of Australia's history, added to the political significance of Soedarman's visit. It symbolised, as far as political representation is concerned, how highly Indonesia actually valued the friendship. For Indonesians, culturally, taking part in a friend's happiness or sadness is a symbol of close friendship.

The visit, like others before it, did not go uncritically. Some regarded it as a cheap political experiment by Indonesia to assess the extent to which Australians, and Australia's media in particular, would react. Critics argued that sending a rather 'junior minister' instead of senior ministers such as the Foreign Affairs or Defence Ministers, showed Indonesia's reluctance to readily accept Australia's tireless efforts to restore the relationship. Further, they argued also that sending a junior minister did not indicate a closer relationship, but on the contrary, it demonstrated strained relations. These critics pointed to the fact that, in a similar mission, Japan and England, which had a much closer and more significant relationship with Australia, sent not only senior ministers but government leaders.[21] Despite these criticisms, it must be said that Minister Soedarman's visit completed the restoration effort attempted by the two governments since the row over Jenkins affair and led

[20] Syarif Hidayat, "Indonesia Benar-Benar Mau Dekat Dengan Australia," *Angkatan Bersenjata,* 12 September 1988; and see also for example Roy Ecclesston, "Neighbours who don't want to know us," *The Weekend Australia,* 20-21 August 1988.

[21] Syarif Hidayat, *loc. cit.*

eventually to the opening of a new chapter in Australia-Indonesia relations. This view was even shared by some of Australia's media.[22]

Considerable credit however lies with the two Foreign Ministers, then Bill Hayden and Mochtar Kusumaatmadja, who displayed great diplomatic skills in resuscitating the relationship. It was somehow quite unique because by the end of 1988 both ended their ministerial portfolios. Mr. Hayden and Dr. Mochtar not only successfully ended the sour relationship caused particularly by the Jenkins affair, but successfully laid down the bases for a further enhancement and development of the relationship between the two countries. This was certainly important, since it made the job much easier for their successors, Ali Alatas and Senator Gareth Evans.

A New Framework, New Discourse

Although the two new foreign ministers inherited more positive circumstances, both acknowledged that the job ahead was not easy. In an interview with Indonesia's leading national newspaper, *Kompas,* in 1995, Alatas said that when he took over the post, one of the tasks he regarded as urgent was to settle Indonesia's unstable and sometimes unfriendly relationship with Australia. Alatas was conscious that the task was not a simple one but he was determined to handle it.[23] Equally, Evans intended to broaden areas of cooperation at the multilateral level. He was sure that if the two governments could find common interests at that level, they might, in turn, lead to the strengthening of the bilateral relationship.[24] Thus, Ali Alatas and Gareth Evans carried

[22] See, amongst others, "Minister's visit is a landmark," *Canberra Times,* 27 August 1988; Ecclesston, "Indonesia signals thaw in relation," *The Weekend Australia,* 27-28 August 1988, p. 2.
[23] See "Politik Luar Negeri R I tak Sekedar Cari Untung," *Kompas,* 28 May 1995, p. 2.
[24] Roy Ecclesston, "Evans' twofold strategy," *The Australian,* 27 October 1988, p. 13.

similar perceptions of the importance of Australia-Indonesia relations, both intending to manage and develop the relationship in a sensible and productive manner.

In a matter of weeks after his appointment, Evans visited Jakarta from 22 to 25 October 1988. This was his first official visit to Jakarta as the Minister for Foreign Affairs and Trade and he took the chance to explain to his counterpart the range of Australia's policy objectives, particularly those related to trade and investment. He also raised other critical issues including human rights, a joint patrol plan for the sea boundary, matters related to illegal fishing, trade and investments opportunities, East Timor, and the Timor Gap.[25] Having been able to raise so many issues in a cooperative spirit, Evans described the visit as a good opportunity to personally consolidate the basis for beneficial relations, a step which was widely supported. Many believed that the visit was a good start to further mend the relationship.[26]

In March 1989, Alatas paid a return visit to Australia. Almost like Evans' visit, taken only a month after his appointment, Alatas visited Australia two months after his appointment in December 1988, reinforcing the sincerity of his comment that one of his main tasks was to stabilise Indonesia's relationship with Australia. Alatas visit was described by some of the Australian media as Indonesia's new friendly face, and one which would facilitate plain speaking between both.[27] The visit demonstrated

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[25] Keith Scott, "Trade with Indonesia outranks human rights," *Canberra Times,* 29 October 1988, p. 11; Helen O'Neil, "Jakarta behind joint patrol plan," *The Sydney Morning Herald,* 24 October 1988, p. 7; Roy Eccleston, "Jakarta talks on illegal fishing," *The Australian,* 24 October 1988, p. 3; and see also Evans' statements in *Backgrounder,* No. 637, 19 October 1988.

[26] See "Evans must mend fences in Jakarta," (editorial), *Canberra Times,* 21 October 1988, p. 8; James Dallmeyer, "Indonesian talks 'excellent, constructive'," *Canberra Times,* 24 October 1988, p. 3; and "Sensible friendship with Indonesia," (editorial) *Australian Financial Review,* 28 October 1988, p. 16.

[27] See, amongst others, Louise Williams, "Visit sets scene for Jakarta meetings," *The Sydney Morning Herald,* 27 February 1989, p. 3; "Indonesia/Australia: a time for plain talk," (editorial) *The Australian,* 28 February 1989, p. 12; and Graham Barret, "Jakarta's new friendly face," *The Age,* 2 March 1989, p. 13.

a real and positive response to appeals previously made by Evans in Jakarta, but, more importantly, the visit demonstrated Indonesian determination to follow up on all matters previously discussed during Evans' visit. Alatas pressed the point on the value of the bilateral relationship where he declared that he shared the same views as his counterpart:

> I fully share his [Gareth Evans] views. For I too believe that common interest requires us [Australia and Indonesia] to look to the future and to give even more solid and diverse substance to our bilateral relationship. In so doing, the differences between us and the occasional difficulties in that relationship, which between neighbours will inevitably crop up from time to time, will hopefully no longer loom so disproportionately large as to overshadow everything else.[28]

After engaging in three days of wide-ranging discussions, the two foreign ministers officially agreed that despite differences, Australia and Indonesia had shared interests in a number of areas which might be a starting point for building a stable relationship. The outcome of their discussions was called **a New Framework for the Australia - Indonesia Relationship,** and was summarised in the official communique as follows:

> The two Foreign Ministers affirmed the common desire of their two Governments for good-neighbourly, mutually beneficial relations, and agreed to a new framework for the future conduct of the relationship.
> Regular Ministerial level discussions will be held to provide a forum for frequent consultation and cooperation in the management of relations between the two nations, and annual official talks will be reinstituted.
> The Australia Indonesia Ministerial Meeting (AIMM), to be constituted by the Foreign Ministers of the two countries (and

[28] Ali Alatas, "Some Thoughts on Indonesian-Australian Relations," *Jurnal Luar Negeri,* No. 12, April 1989, p. 88.

other Ministers as and when appropriate), will be convened at least every 18 months, or more frequently if circumstances so require. The purpose of the AIMM will be:

- to review developments in Australia-Indonesia relations with the objective of cooperative management of the relationship between the two countries.
- to consult on regional and global political and economic issues of concern to Australia and Indonesia.[29]

In addition, the two ministers agreed to establish regular talks at senior official levels —to be known as the Australia Indonesia Senior Officials Meeting (AISOM)— with meetings held annually or as required.[30] Furthermore, both sides agreed to add two other diplomatic steps. One was the establishment of the Australia-Indonesia Institute, with the main aim of assisting the governments in seeking and exploring practical areas where greater understanding could be enhanced. Areas such as cultural, language, business, media, and academic exchanges have since been targeted by the new Institute. The second was rather personal but no less important. As well as agreement at the official level, interestingly, the two foreign ministers found they were able to build a good personal relationship, and agreed to use more hotline channels to support future diplomatic relations.[31]

Obviously, the new framework has been an agreement to improve the relationship and commit to positive and productive endeavours in many arcas. It has recognised past difficulties in handling the relationship but also acknowledged the need to manage it properly by building up strong institutional links. In other words, it constitutes an official effort to bury the hatchet by forging links not only at the

[29] *Backgrounder,* No. 467, 15 March 1989.
[30] *Ibid.*
[31] Mark Bruer, "Evans and Alatas reestablish a close relationship," *The Age,* 4 March 1989, p. 3.

government level but also involving other areas such as business, education, and people-to-people contacts. With its strong emphasis on bilateral benefits, the new framework was intended to complement the relationship through concrete and pragmatic collaboration. There was an expectation that it would make it possible to 'manage' crises or conflicts. In addition, there was a belief that the creation of a personal diplomatic relationship at the ministerial level (mateship diplomacy) would contribute significantly to the problem-solving at official levels. Several officers interviewed at the Indonesian Department of Foreign Affairs, including one who had just finished his posting in Canberra, acknowledged the bilateral importance of the 'mateship diplomacy'. The interviewees shared a common view that on many occasions 'mateship diplomacy' had provided an additional avenue for officials or diplomats from both sides to openly discuss and exchange views on various issues, resulting in better mutual understanding. [32]

Most importantly, by signing a new framework for bilateral cooperation, both governments had given birth to a new discourse in managing the bilateral relationship. It was a new discourse because the signed framework contained new arguments and agreed arrangements on how the relationship would be managed to be effective and productive. It agreed to focus on collaboration in areas where both countries have common views and converging interests, which in turn could be a motivating factor in stabilising their future relationship. It was also a new discourse because, to a certain degree, the new framework sidelined an 'old' argument about cultural differences. It must be said that arguments about cultural difference were often used to justify

[32] Summary taken from interviews with several officers in the Department of Foreign Affairs in Jakarta, including one who just came back from his posting in Canberra.

behaviour or policies that went wrong between both nations. This is not to say that the old argument was no longer important, but the new discourse seems to provide more alternatives and point to prevention and solutions when the relationship got in conflict. Furthermore, the new discourse implies official view that the old arguments were of limited usefulness and that it was time for their substitution with a more workable set of understandings. The establishment of the Australia Indonesia Institute, whose objectives have been particularly to build mutual cultural understanding, symbolised the remaining significance of the old argument. Equally, the emphasis on the importance of working together on a variety of converging interests has indicated that both governments were interested in establishing a preventive style of diplomacy.

Neither side expected that one single issue would now effect other areas of the relationship as had been the case with the Jenkins affair. The establishment of institutional links, particularly regular discussions at the ministerial level, indicated clearly the extent to which the two governments were prepared to move. Moreover, the new discourse had another significant advantage in that it finally erased the old perception that it was only in Australia's interests to have a stable relationship with Indonesia. The agreement to work together in many areas of mutual concern and interest had given both governments a twin responsibility to create and maintain a long and stable relationship. Moreover, the inclusion of regional and global political and economic issues in the new framework indicated quite clearly that the two governments wanted to expand the relationship. It was an undertaking to shift the relationship from its narrow focus on bilateral political and security issues to the one

that is more broadly based to include a greater range of common interests. It went beyond issues just concerning the bilateral relationship: it now contained expectations of more opportunities for collaboration to further strengthened and stabilise the relationship.

The follow up to the new framework soon appeared. As was agreed, regular ministerial consultations every 18 months commenced, and worked smoothly, with the first being held in Bali in 1990, followed by the second in Canberra in 1991. There was a high incidence of ministerial visits, including those by leaders of the military, and between 1989-1991, for example, fourteen Indonesian ministers made the trip to Australia.[33] Visits by Australian ministers and officers to Indonesia were not only regular but increased enormously under the new framework. Gareth Evans, as Australia's Minister for Foreign Affairs and Trade, for example, visited Indonesia fourteen times between 1988 and 1995.[34] This track record extended to over twenty when other visits by Evans between 1994-1996 are included. Overall, from August 1988 to June 1994 there were 87 bilateral high-level ministerial visits, 35 from Indonesia and 52 from Australia, with the discussions generally around various areas of bilateral common interest.[35] At the multilateral level, during this period, Australia and Indonesia worked together on solutions to the Cambodian conflict.[36]

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[33] Buchari Effendi, "Indonesia-Australia Economic Relations," in H. da Costa, ed., *Australian Aid to Indonesia,* Melbourne, Centre of Southeast Asian Studies, Monash University, 1991, pp. 6-7.

[34] Gareth Evans, "Australia and Indonesia: Neighbours for half a century," in Colin Brown, ed., *Indonesia, dealing with a neighbour,* St. Leonards, New South Wales, Allen & Unwin, 1996, p. 13.

[35] Gareth Evans and Bruce Grant, *Australia's Foreign Relations In the World of the 1990s,* second ed., Melbourne, Melbourne University Press, 1995, pp. 201-2.

[36] *Ibid,* pp. 221-37; and Gareth Evans, "The Comprehensive Political Settlement to the Cambodian Conflict: An Exercise in Cooperating for Peace," in Hugh Smith, ed., *International Peace Keeping, Building on the Cambodian Experience,* Canberra, Australian Defence Studies Centre, 1994, pp. 1-14.

In July 1991, Indonesia appointed Sabam Siagian to become its Ambassador to Australia. It was the first time in the history of the New Order Government that a journalist was appointed to be Ambassador, although this had been a quite common practice in the 1950s. Given that Sabam was a senior journalist with considerable experience, his appointment was critical as far as Australian-Indonesian relations were concerned. It suggested that Indonesia had given priority to its relationship with Australia. Indonesia was hoping that Sabam's considerable knowledge and expertise as a senior journalist would suit the Canberra job, particularly in managing or even countering criticisms often raised by the Australian press in relation to Indonesia. The aim, doubtless, was to build a better relationship and was openly acknowledged by the Indonesian Minister, Ali Alatas, after the swearing in of Sabam as new Ambassador. Alatas declared that this appointment was intended "to foster an interaction and better dialogue with Australian society, and particularly with the press and non-government organisations."[37]

"Mateship Diplomacy"

When Paul Keating became Prime Minister in December 1991, he significantly improved the nature of the bilateral relationship. Keating's quick decision to make his first official overseas visit to Indonesia demonstrated his willingness to boost the relationship. Many remembered, and perhaps will always remember, Keating's statement that "no country is more important to Australia than Indonesia." Indeed, Keating once acknowledged, as he always argued elsewhere during his prime

[37] David Hill, "Jakarta's new man in Canberra," *Inside Indonesia,* No. 28, October 1991, p. 7.

ministership, that one of his highest priorities when he became prime minister was to ensure Australia's relationship with Indonesia received more attention. It was this intention that triggered his first official visit to Indonesia in April 1992.

Despite criticism that by visiting Indonesia Keating merely wanted to build his own political popularity as a new Prime Minister, the visit was mainly intended to examine ways in which Indonesia and Australia could broaden their relationship from one that concentrated on political issues to one with a much broader agenda of economic, social and cultural cooperation. Keating argued strongly that for too long the two neighbours had been looking at the bilateral relationship in almost exclusively political terms. As a result, Keating added, not many Australians understood the importance of Indonesia, and still fewer Australians recognised the pace of economic development taking place in Indonesia and various opportunities it offered to Australia.[38] It is fair to say that Soeharto shared Keating's view that there were still few initiatives from both countries to explore and exploit productive areas of economic cooperation. It was decided that there should be one official mechanism to fill the gap, which would drive the efforts of both sides. The two leaders subsequently agreed to establish the Australia-Indonesia Ministerial Forum, with an appropriate membership of a variety of economic ministers.[39]

The structure of the new ministerial forum consists of two main working groups; one working group on food and agricultural cooperation and another on trade, industry and investment. The former includes six taskforces: meat and livestock, dairy cooperation, land and water management, agricultural research and

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[38] Paul Keating, "Australia and Indonesia," in Mark Ryan, ed., *Advancing Australia, The Speeches of Paul Keating, Prime Minister,* Sydney, Big Picture, 1995, pp. 201-6.

[39] *Ibid.*

development, and food processing, storage, transport and distribution. The latter consists of three main subgroups; trade and investment including services, industry collaboration, and intellectual property. The subgroup on industry collaboration specifically covers shipbuilding, industrial standards, automatic components, engineering construction and consulting, textiles, clothing and footwear, the environmental management, aerospace, telecommunications, power, and medical and scientific equipment.[40] The forum has been having meetings annually since 1993, although it was once interrupted in 1995 due to the row over the Mantiri affair. Nevertheless, the structure has demonstrated how broader areas of potential collaboration might be explored. These could provide opportunities where both governments could sow the seed for a more stable and productive relationship. There is no doubt that the establishment of the new Ministerial Forum led to the strengthening of the bilateral relationship at the government level. It enabled the two government leaders to push the new discourse one step further by providing a space in which the notion of a broadening relationship was able to be translated into more tangible and practical policy management. Keating and Soeharto actively translated the ideas contained within the framework agreement of 1989 into a more visible collaboration. This was particularly true of areas of economic co-operation which received special attention from both leaders.

Another notable aspect of Keating's first official visit to Indonesia was its timing in regard to the East Timor issue. Keating won the battle within the ALP against Bob Hawke and became Prime Minister in December 1991, just at the point

[40] East Asia Analytical Unit, Department of Foreign Affairs and Trade, *Expanding Horizons, Australia and Indonesia into the 21st Century,* Canberra, AGPS, 1994, p. 337.

when the bilateral relationship was in a very difficult situation following the Dilli massacre of November 1991 –an issue will be specifically explored in the case study at the end of this chapter. Keating's decision to visit Indonesia first, especially his determination to 'talk quiet' on the East Timor issue during his initial discussions with President Soeharto in April 1992, went some way to easing the tension between Australia and Indonesia. Understandably, Keating was strongly criticised at home and accused of deepening Australia's policy of appeasement to Indonesia. Nevertheless, the anger and unpleasantness on the part of the Indonesian elite over Australia's reactions toward the Dilli massacre significantly changed as a result of Keating's first official visit to Jakarta. The Indonesian Minister of State Secretariat, Moerdiono, acknowledged that Keating's decision to choose Indonesia as the first nation to visit demonstrated the seriousness of Australia's intentions to establish a better relationship with Indonesia, and Indonesia welcomed the decision.[41]

In addition to strengthening relations at the government level, Keating continued the Alatas-Evans' tradition of mateship diplomacy, seeking a closer personal relationship with Soeharto. It is well known that Keating, as Prime Minister, made quite frequent telephone calls to Soeharto to consult on a variety of matters. During his four years of prime ministership, Keating visited Indonesia six times. It was a quite remarkable record, when compared Bob Hawke, for example, who visited Indonesia only once during almost nine years as prime minister. Obviously, the Soeharto-Keating mateship diplomacy contributed to the strengthening of the relationship.

[41] See *The Jakarta Post*, 16 April 1992.

The Keating factor, to a certain degree, has influenced the changing attitude of Indonesia to the Asia Pacific Economic Cooperation (APEC). Keating's diplomatic influence and close personal relationship with President Soeharto helped Indonesia to change its position on APEC, from one of reluctance to one which was far more supportive of APEC.[42] It was this mateship diplomacy, moreover, that was largely instrumental in achieving the Bogor Declaration, under which APEC members agreed to open a free trade zone by the year 2020. It was also this same mateship diplomacy that helped the two countries conclude the security treaty agreement signed in December 1995, an issue which will be further explored in chapter eight.

Case Studies

Many writers have suggested that the new discourse has contributed significantly to the increasing of bilateral economic activities and military cooperation, which will be explored chapter seven and eight respectively, between Australia and Indonesia. Officials, moreover, have often used the increase in the two way traffic of official visits to argue that the bilateral relationship has growing in stability and warmth since the inception of the new discourse.[43] However, to asses how the new discourse has influenced the changing attitudes at the government level, the following have been chosen as case studies: the 1989 Timor Gap Treaty, the 1988-91 lifting of journalists ban, the 1991 East Timor massacre, and the 1995 Mantiri Affair.

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[42] Teuku Rezasyah, "The Changing Attitude of Australia and Indonesia Towards APEC," *The Indonesian Quarterly,* Vol. 22 no. 4, 1994, pp. 320-32.

[43] See, amongst others, Gareth Evans, "Australia and Indonesia: Neighbours for half a century," in Colin Brown, ed., *op. cit.,* pp. 9-18.

The Timor Gap Treaty was signed in 1989. Under the treaty provisions, Australia and Indonesia agreed to establish a 40 year cooperation exercise in a disputed border area between Northern Australia and the Indonesian island of Timor, an area many believe to contain rich oil and natural gas fields. Both governments have agreed to divide the disputed area into three zones. Zone A is the area of joint cooperation where a joint ministerial council fully controls petroleum operations on behalf of both governments. The joint authority has charge of monitoring the daily operation of exploration activities in the area. As part of that responsibility, the joint authority must report directly to the ministerial council on all matters related to the exploration developments in the zone. The joint authority is comprised of an equal number of ministers from both countries. Zone B is the Australian end of the disputed area where Australian jurisdiction applies solely. However, Indonesia is entitled to receive 10 per cent of gross resources rent tax revenues that Australia gains from the area, and Australia is obliged to notify Indonesia about petroleum operations in zone B. Zone C is the Indonesian end of the disputed area, in which Indonesia has its sole jurisdiction, but Australia is entitled to receive 10 per cent of income tax revenues gained by contractors undertaking exploration in the area, and Indonesia has to notify Australia about petroleum operations in this zone.

The treaty was an historic one for several reasons. It successfully ended a long series of discussions and bilateral negotiations begun in late 1969 when both countries met to discuss their mutual sea bed boundary. These talks went in tandem with increasing international efforts to clarify maritime legal issues through the United Nations Conference on Law of the Sea (UNCLOS), which had started in 1958. In

October 1972, Australia and Indonesia announced that they had reached agreement over a large part of their sea bed boundary. However, an area south of East Timor, then occupied by Portugal, was not included since Portugal did not participate in the agreement. Since then, that remaining area has been known as the "Timor Gap."[44]

There were no further developments regarding the 1972 agreement until 1976, when both countries reactivated negotiations for the settlement of the Timor Gap. The political situation regarding the take-over of East Timor by Indonesia between 1974-76, and Australia's domestic political crisis resulting from the sacking of Prime Minister Whitlam by Governor General, Sir John Kerr in December 1975, all had an impact on the Timor Gap negotiations. Australia's 'uncertain' position on the East Timor issue made Indonesia hesitant about continuing talks.

Indonesia was enticed into returning to the negotiating table, however, when Prime Minister Malcolm Fraser indicated that Australia might look more favourably on Indonesia in relation to East Timor. By that time it was widely known within the Indonesian elite that Australia might have a great deal to gain from the huge amount of oil and gas in the disputed area, and this was responsible for Australia's enthusiasm over discussions since 1969. Aware of this, Indonesia apparently began to employ a new tactic; it would indicate an interest in negotiations only when there was clear indication that Australia favoured Indonesia regarding the occupation of East Timor. The trade-off seemed to work. The negotiations over the Timor Gap continued and intensified as Australia formally recognised the incorporation of East Timor into Indonesia in 1979. In 1981 both countries had declared 200 mile zones which

[44] Andrew Mills, "The Timor Gap Treaty, more paper for the cracks or a foundation for the wall," *Inside Indonesia*, No. 22, March 1990, pp. 5-8.

overlapped in the Timor Sea, but both were determined to come to an agreed solution.[45]

When the Fraser Coalition government lost to the Hawke-led Labor government in 1983, Indonesia maintained its position. There was, however, some disquiet within the Indonesian elite, which was watching very closely what position Hawke would take on East Timor, because the Australian Labor Party had consistently supported self-determination for an independent East Timor in its party platform. But when it was clear that that the new Labor government maintained Australia's recognition policy, Timor Gap negotiations continued. They were interrupted for a period in 1986 following the David Jenkins saga, but resumed in 1988, and by October of that year the principal agreement was reached. By that time, as mentioned previously, Ali Alatas and Gareth Evans, were in the process of establishing a new framework for the bilateral relationship which they concluded in March 1989.

It is no doubt that the new framework of cooperation was instrumental in helping both countries to finalise negotiations and sign the Timor Gap Treaty on 11 December 1989. The Treaty has been described as a comprehensive and substantial document.

> The Timor Gap Treaty deals not only with petroleum exploration and exploitation, but also matters as diverse as labour relations, environmental protection, criminal law and security, and customs, quarantine and immigration requirements. ... it does not simply divide the area into two separate zones in which each country's regime operates. It reflects a synthesis of approaches, practices and legal principles of both countries.[46]

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[45] *Ibid*, p. 7.
[46] Gareth Evans and Bruce Grant, *op. cit.*, p. 201.

The complexity of the Treaty required not only the involvement of the Foreign Affairs portfolio, but others including resources, industry, mining and gas, trade, planning and development. Their input was required because the new framework of cooperation channelled responsibilities to appropriate ministers who were expected to discuss issues under the purview of their portfolio. The Treaty has clearly demonstrated how mutual understanding and converging interests between Australia and Indonesia can change what was a border conflict into an area of cooperation. It was the first significant outcome of collaboration at government level under the spirit of the new discourse.

In addition to its historical values, the Timor Gap Treaty has also scored a number of political points. The most important has been Indonesia's political victory over East Timor's legal status. Australia has recognised East Timor as part of Indonesia's legal territory since 1978, however, this did not end the issue. The status of East Timor has consistently been the greatest threat to the stability of the bilateral relationship. However, by signing the treaty, Australia politically strengthened its policy of recognition of the legitimate integration of East Timor into Indonesia. Moreover, Australia's successful efforts to defeat Portugal's legal challenge at the International High Court in 1995, in which case Portugal accused Australia of illegally signing the treaty with Indonesia, powerfully reaffirmed that policy and it is not surprising that Indonesia welcomed the victory. By signing the agreement the once crucial question of the legality of East Timor's integration into Indonesia will now be put aside from official talks. Other issues relating to East Timor as a result, have risen

to greater prominence in Australian-Indonesian relations. These issues, including that of human rights, are considered to be more manageable and less likely to harm the bilateral relationship overall in years to come.

However, this does not mean that in the future the East Timor issue will completely disappear nor does it reduce its potential to harm the bilateral relationship. Given that there is widespread support for East Timorese independence in Australia, one future issue is how the Australian government will choose to handle demands from East Timor's supporters, and how these demands might be conveyed to the Indonesian government. Raising the issue bluntly, let alone lecturing Indonesia on matters related to human rights, has proven unsuccessful and counter productive. Although it should be noted that the Treaty has been contentious for other countries, it can, nevertheless, become a model for Australia and Indonesia to apply in other border areas where they still have competing claims. Equally important, the treaty can also become an example to other countries involved in a disputed border conflict, on how a point of conflict, properly managed, can become one of co-operation.[47]

The second case is the lifting of Australia's media ban. As described previously, no resident Australian journalist posting had been permitted in Indonesia since the end of 1986, following the Jenkins affair and the retaliatory ban on Australian media. Australia, however, continued to negotiate and under Bill Hayden's diplomatic approaches, Indonesia gradually softened its position. In February 1988, Indonesia permitted the Australian Associated Press (AAP) to establish a bureau in

[47] Martin Tsamenyi and Sam Bateman, "Good neighbours at sea?" in Colin Brown, ed., *ibid,* pp. 173-186.

Jakarta. Since then, Indonesia had steadily allowed visits by Australian journalists, although visa approvals were to remain selective for a short period.

At the government level, however, negotiations on the ban issue intensified after the signing of the new framework of cooperation in 1989. Subsequently, Indonesia began to approve longer period visa for journalists, although still quite selectively. Faced with this situation, the Australia-Indonesia Institute, established during the signing of the new framework, stepped up its efforts with the Indonesian government and as a result the Indonesian Department of Information rescinded its ten-year ban on ABC representation in Indonesia and gave approval for an ABC journalist to be resident in Indonesia in September 1991.[48] This ended the period of total ban on the Australian journalists, and since that point the media relationship between Australia and Indonesia has improved steadily. Exchanges of visits between journalists from both countries rapidly increased, and annual meetings between senior media editors have been institutionalised. Improvements have included co-operation between ABC TV and TVRI (Indonesia's government-owned television) and exchanges of knowledge between film makers in the two countries.[49] Several Australian media journalists have been posted in Indonesia, including Patrick Walters (*The Australian*), Greg Earl (*Australian Financial Review*), Louise Williams (*The Age* and *The Sydney Morning Herald*), and Michael Maher (ABC TV). All of these improvements were made possible under the new framework of cooperation.

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[48] Broader explanation see Colonel Colin East, "Indonesia, Approaching the Crossroads," *Asia-Pacific Defence Reporter 1991,* Annual Reference Edition, p. 19.

[49] Ikrar Nusa Bhakti, "Facing the 21st Century: Trends in Australia's Relations with Indonesia," *The Indonesian Quarterly,* Vol. 20 no. 2, 1992, p. 148.

The third case study concerns the diplomatic tension created by the Dilli massacre on 12 November 1991. It occurred when Indonesian soldiers attacked and shot demonstrators at a peaceful East Timorese rally demanding independence. The incident claimed hundreds of lives and hundreds more were described as missing in the aftermath. Unsurprisingly, the incident caused an international outcry and almost universal condemnation of Indonesia. Similar public outcry and condemnation came from Australia. In the government's caucus meeting, there were calls for the Australian government to bring diplomatic sanctions against Indonesia. Many members of parliament demanded in the strongest terms that the Minister for Foreign Affairs and Trade, Senator Gareth Evans, make an urgent protest visit to Jakarta.[50] The mounting pressure forced Prime Minister Hawke to openly attack Indonesia for its actions and to place the blame for the casualties solely on Indonesia. He went on to state publicly that Australia might have to rethink its recognition policy over East Timor's incorporation into Indonesia, and strongly urged and supported the UN's plans to proceed with a special investigation on the massacre. Further, Hawke agreed to have talks with East Timorese guerilla and Fretilin leaders.[51] His tough position fed mounting anti-Indonesian feeling that expressed itself through demonstrations around Australia. In several incidents, Indonesian diplomatic vehicles were attacked by demonstrators.

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[50] David Lague and Geoff Kitney, "PM pressured on Timor," *Australian Financial Review,* 26 November 1991, p. 1-2; Greg Austin, "Threaten Jakarta with sanctions, says Labor MPs," *The Sydney Morning Herald,* 26 November 1991, p. 1; Mark Metherell, "Call for Evans to make Jakarta protests trip," *The Age,* 26 November 1991, p. 1.

[51] Mike Seccombe, "PM attacked over line on Dilli horror," *The Sydney Morning Herald,* 4 December 1991, p. 9; Bernard Lagan, "Australia may rethink Timor recognition," *The Sydney Morning Herald,* 6 December 1991, p. 4; David Lague, "Government backs UN probe," *Australian Financial Review,* 4 December 1991, p. 5. Also Tony Parkinson, "Fretilin leader flies in for talks with PM," *The Australian,* 3 December 1991, p. 3; and Mark Metherell, "Hawke to meet Timor guerillas," *The Age,* 3 December 1991, p. 3.

Australia's reaction, predictably, angered Jakarta. Indonesia threatened to recall its Ambassador if Australia continued with such attitudes.[52] Strong reactions emerged particularly from the hardliners in the military. These were understandable, because the case deeply and directly touched their own role in Indonesian political life. Given that the hardliners have dominated and influenced the structure of Indonesian politics, their extreme reactions to Australia's response to the Dilli incident marginalised the voices of the moderates within the Foreign Affairs Department. General Try Sutrisno, Indonesian Chief of the Armed Forces, took a harsh line over the issue and declined discussions with Gareth Evans who made a visit to Jakarta on 20 December 1991.[53] Evans was hoping to have an opportunity to express Australia's concern over the issue, but was able to meet with the moderate group. Certainly, communications at the government level decreased. At the same time public anger in Australia increased, with many demanding the Australian government take further action. The result was another unstable period in the bilateral relationship.

The refusal to meet Evans by sections of the Indonesian elite seemed to suggest the failure of the new discourse, that the management of the relationship was not working properly. The institutional mechanisms, agreed by both parties under the 1989 framework of cooperation, did not operate as well as had been intended. The refusal by the hardliners to have discussions with Gareth Evans indicated that they

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[52] Greg Austin, "Australians protests anger Jakarta," *The Sydney Morning Herald,* 27 November 1991, p. 1, 6; David Lague, "Jakarta threaten to recall envoys," *Australian Financial Review,* 27 November 1991, p. 1-2; and Tony Parkinson, "Indonesia threatens to recall envoy," *The Australian,* 27 November 1991, pp. 1-2.

[53] Jeremy Thompson, "Evans admits his Indonesian visit will achieve little, if anything," *Canberra Times,* 21 December 1991, p. 5; Greg Sheridan, "Mind your own business, Evans told," *The Australian,* 20 December 1991, p. 4; and Greg Sheridan, "Jakarta snubs Evans - politely," *The Australian,* 23 December 1991, p. 3.

did not feel, at least morally, bound by the commitments given in the new framework of cooperation. If the situation were to continue, it would be likely to drive the whole relationship back to the edge. This, fortunately, did not happen. The leadership battle between Hawke and Keating in late December 1991 quickly marginalised the issue. Keating won and became Prime Minister. His subsequent decision to make his first official visit to Indonesia further eased tensions between both countries. Equally important, Keating's decision to keep 'quiet' on the Dilli issue during his visit in April 1992 prevented the two countries from entering into a further row. The case demonstrated quite clearly, however, that although Australia and Indonesia had an institutional mechanism (the new framework of cooperation), it was not always able to guarantee tan easy settlement even to issues arising out of the bilateral relationship.

The fourth case study is the Mantiri affair. This concerned the aborted appointment of Lieutenant General Herman Mantiri as Indonesia's Ambassador to Australia in 1995. In Indonesian eyes, General Mantiri had been one of its most respected and capable officers, the highest ranking military officer ever nominated by Indonesia to be its Ambassador to Australia. His close and expert involvement in upholding Australia-Indonesia military cooperation has widely been respected within the Indonesian elite, particularly among the military. Considering that Mantiri had served in East Timor three times during his military career, the Indonesian government expected that his extensive knowledge would be invaluable in addressing the East Timor issue, the most delicate in the bilateral relationship. In Australian defence circles, similarly, there was considerable support for General Mantiri's nomination. They regarded him as a person who has done much to build more

constructive defence links between the two countries.[54] His appointment, in the eyes of many defence personnel, demonstrated how Indonesia highly valued the political importance of its relationship with Australia.

Unfortunately, the 'anti Indonesian' element within Australian community led particularly by particularly the pro-East Timorese groups and the Left wing of the ALP, saw Mantiri's background and capability in a different light. They were of the view that Mantiri's long service in East Timor characterised him as "an enthusiastic defender of the brutal repression practiced by Indonesian soldiers," including the Dilli massacre in November 1991. These groups believed that Indonesian troops had shot and killed between 100 and 200 unarmed demonstrators.[55] They were highly critical of Mantiri's reported comments in an interview with the former Indonesian magazine, *Editor,* in which he defended the role of Indonesian troops in the Dilli massacre as a "proper act" in countering the rebels.

When in late 1994 Indonesia formally nominated General Mantiri as designated Ambassador for Australia to replace Sabam Siagian, it was predictable that the 'anti Indonesian' elements and pro East Timorese groups within the Australian community would strongly oppose the appointment. They warned the Australian and the Indonesian governments that they would make many difficulties for General Mantiri should his appointment proceed. The warnings were ignored by both governments and Canberra gave formal approval of Mantiri's appointment. As a result opposition intensified and widened.

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[54] Patrick Walters, "Quarrel over general reveals cultural divide," *The Australian,* 3 July 1995.

[55] Mike Steketee, "Softly-softly approach to Indonesia a failure," *The Australian,* 29 June 1995.

When in April 1995 the Indonesian government refused to reconsider Mantiri's appointment, the public outcry intensified and there were demands that the Australian government, particularly Foreign Minister, Gareth Evans, take tougher stance with Indonesia. The demands were successful. Gareth Evans, under intense pressure, aware that he had previously misjudged the strength of the opposition and possibly nervous of losing his bid to move to the Lower House, where longer terms plans for the party's Leadership might better come to fruition., was forced to convey to the Indonesian government that Mantiri should make an apology for comments he had made.[56] Indonesia, predictably, refused such a demand. Mantiri, however, responded personally, saying that he regretted from the bottom of his heart the Dilli deaths.[57] As the row went on, Indonesia made a rather unexpected decision. On 6 July 1995, the Indonesian Foreign Minister, Ali Alatas, announced that Indonesia would withdraw the nomination of General Mantiri, but that the Canberra post would be vacant for indefinite period. In the event, the new Ambassador, Wiryono Suryohandoyo, was appointed in December 1995. Alatas declared during the announcement that the row over Mantiri's appointment had been used as deliberate agitation by irresponsible elements within Australia for political advantage.[58]

This case indicated clearly that both governments had failed to assess correctly the extent to which warnings given by the groups opposing Mantiri's nomination could lead to serious problems. On the one hand, Indonesia was optimistic that the relationship was wider than the East Timor issue and that the appointment of such a

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[56] Maria Ceresa, Don Greenlees, and Patrick Walters, "Evans pushes Indonesia on Envoy row," *The Australian,* 3 July 1995.

[57] Patrick Walters, "Jakarta's new man regrets Dili deaths," *The Australian,* 1 July 1995.

[58] Patrick Walters, Cameron Stewart, and Rachel Hawes, "Mantiri: angry Jakarta retreats, consul's position left vacant," *The Australian,* 7 July 1995, pp. 1, 4.

respected figure as General Mantiri overcome any likely challenges, and that it was up to the Australian government to assess its own domestic situation. On the other hand, Australia, particularly with the hand played by Gareth Evans, not only failed to make an adequate early assessment of the strength of these warnings, but also seemed reluctant to speak candidly with Jakarta on the issue. Evans must bear a large part of the responsibility for this. He seems to have regarded the issue as too sensitive, and been of the opinion that to raise these warnings officially with Indonesia might upset the warm relationship both countries had recently enjoyed. As a consequence of his reluctance, Evans was then forced into the even more difficult situation of demanding from Mantiri a public apology before assuming his new role as an Ambassador. It was only after strong public opposition to Mantiri's appointment was voiced, that Evans decided he would demand a concession from the Indonesian government.

It was not quite clear, however, whether the withdrawal of Mantiri's nomination resulted from negotiations between the two sides, although it is certain that Indonesia took a unilateral decision to withdraw the appointment of General Mantiri after realising the difficulties Mantiri might face in Australia. The cancellation meant the Indonesian government decided to give priority to the continuity of a stable relationship priority, without fear of being seen to lose face from the aborted appointment. This view is supported by Alatas' statement to the media in which he said that Indonesia hoped the withdrawal "will not have an impact because we value the relationship which has now been nurtured and has now been developed between Australia and Indonesia."[59] The case did demonstrate, however, the difficulties of the

[59] *Ibid;* see also Patrick Walters, "General sacrificed for relations," *The Australian,* 7 July 1995 ; and Patrick Walters, "A Romance Soured," *The Weekend Australian,* 8-9 July 1996, p. 23.

situation particularly with a strong and divergent view between public opinion and government policy. Alatas' statement indicated a considerable depth of political knowledge and insight between both governments as to the likely effects to the bilateral relationship should the appointment proceed. In short, mutual political understanding between both sides were, eventually, sufficiently strong to manage the Mantiri affair.

Conclusion

This chapter has described the changing attitudes of the Australian and Indonesian governments since 1986. It has noted a steady increase in mutual understanding at the government level, which has been achieved through painstaking diplomatic efforts by both Indonesia and Australia. It is true that the Jenkins affair had considerable negative impact on the political relationship, however, the case was 'blessing in disguise'. Despite the damaged it caused, it also forced both sides to be more understanding around cultural sensitivities, and the potential effects they might have on the management of the bilateral relationship. The Jenkins affair, more importantly, pushed the two governments to explore new ways in which they might manage the bilateral relationship more practically and usefully, supported by deeper understanding.

In the process of achieving this target, the countries' Foreign Ministers, initially Bill Hayden and Mochtar Kusumaatmadja and later by Ali Alatas and Gareth Evans, were particularly instrumental in handling the task successfully. The former were successful in reviving the relationship by putting into place foundations which

Alatas and Evans were later able to build on. Supported by their close friendship – 'mateship diplomacy'– Alatas and Evans were successful in nurturing the close relationship even further. Beginning with bilateral visits, the two ministers agreed in 1989 to sign a new framework of cooperation, the main aim of which has been the introduction of a new discourse in managing the bilateral relationship. Both governments agreed to broaden the relationship and committed themselves to concentrating on and working together in areas where both countries have converging interests, including those at the multilateral level. In essence, both countries have agreed to have a parallel responsibility in maintaining the stability of the bilateral relationship.

The chapter has highlighted the importance of 'mateship diplomacy' as a means of managing these commitments. The close relationship between Hayden and Mochtar, Alatas and Evans, and Keating and Soeharto helped both countries to reach a higher level of mutual understanding, which in turn has enabled them to manage their differences more easily. However, this high level of understanding at the government level has not been followed by a similar one at the level of the general community both in Australia and Indonesia. This, as the case studies show, resulted in several problems for both governments. Nevertheless, since the 1989 framework of co-operation (with its new discourse) has operated, the Australian and Indonesian governments have had an official mechanism to assist in the management of issues likely to harm bilateral relations. In short, the political foundations of the relationship between Indonesia and Australia have been strengthened.

CHAPTER SEVEN

INCREASING ECONOMIC INTEGRATION

This chapter examines developments in the economic relationship between Australia and Indonesia during 1986-1996, and analyses its impact on the overall bilateral relationship. It begins with a short review of the status of the economic relationship prior to 1986. Several general economic indicators — trade in manufactured products, investment, trade in the services sector, and the role of Australia's bilateral aid — are used as variables of assessment. This is followed by an exploration of the factors that underpinned this bilateral economic development. The chapter ends with a discussion on the meaning of the bilateral economic relationship to Australia and Indonesia's overall relationship.

Past Experience

Part one revealed that the dominance of political and strategic issues during 1945-66 period had marginalised the economic dimension of Australian-Indonesian relations. There were, however, some limited economic activities which derived mainly from economic aid provided by Australia under the Colombo Plan, which was part of Australia's strategic response to the global political challenge of communism after the World War II.

At the end of World War II Australia began to realise that it had to reassess its strategic concerns and focus more closely on the Asian region. The memory of Japan's aggression during the war and the victory by the communist party in China increased these concerns. Australia felt that political instability and the economic vulnerability of countries in the South and Southeast Asian region could be easily exploited by communist forces. This situation challenged Australia to find a strategy that would distance these countries from communist influence. Having seen how the US was able to effectively disseminate its influence in post-war Europe by providing economic aid through the Marshal Plan, Australia adopted a similar strategy. It proposed to regional Commonwealth member states that a similar scheme be established and in 1950, following a meeting of the Commonwealth's Ministers of Foreign Affairs in Colombo, Sri Lanka, the scheme came into being. Named the Colombo Plan, it was established as a program specifically to organise economic aid from developed countries in the Commonwealth to poorer countries in South and Southeast Asia. Initially, it included just the Commonwealth countries, but later other non-Commonwealth countries were brought into the scheme.

The ultimate political and strategic objectives behind Australia's initiative in proposing the Colombo Plan were revealed by Australia's Foreign Minister, Sir Percy Spender, who played a major "hands-on" role in its establishment. According to Sir Percy, there were at least three main identifiable reasons.[1] Firstly, it was a direct outcome of Australia's new consciousness of its closeness to Asia. The Australian

[1]For further elaboration see Sir Percy Spender, *Exercise in Diplomacy, the ANZUS Treaty and the Colombo Plan,* Sydney, Sydney University Press, 1969; see also Wilfred Prest, "Economic Policy," in Gordon Greenwood and Norman Harper, eds., *Australia in World Affairs 1956-1960,* F. W. Cheshire, 1963, pp. 140-47.

government considered that what took place in Asia would inevitably impact upon Australia's future. It particularly believed that Asia's instability would effect Australia's political and strategic interests. Secondly, there was a growing concern within Australia that a menacing tide of communism, represented by the Communist Party victory in mainland China, was a genuine threat to Australia's existence.[2] Therefore, it was a necessary for Australia to develop a dynamic policy towards neighbouring Asian countries. Thirdly, in facing this challenge, Australia hoped to copy US success with the Marshall Plan which, by providing massive amounts of economic aid, helped to create stability and encourage democratic development in post-war Europe. Australia hoped to see the economic aid under the Colombo Plan scheme achieve a similar success in Asia.

Indonesia joined the Colombo Plan in 1953 and in June of that year the Australian and Indonesian governments concluded their first agreement on economic aid under the scheme. The first aid package was worth A$0.5 million and was mainly targeted towards agricultural development through the provision of trucks and tractors. After that, in almost every financial year, Australia has increased economic aid to Indonesia, most of which was initially through the Colombo Plan scheme (Table 7.1). Aid took a variety of forms including the improvement of public transport, and the provision of equipment for telecommunications, cranes for harbour development, and engines for fishing vessels. Under the scheme, Australia also provided scholarships for Indonesian students to study in Australia.[3]

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[2] Henry S. Albinski, *Australia's Policies and Attitudes Towards China,* Princeton, New Jersey, Princeton University Press, 1965; and Greg Clark, *In Fear Of China,* Melbourne, Lansdowne, 1967.

[3] H. W. Arndt, "Australian Economic Aid to Indonesia," *Australian Outlook,* Vol. 24 no. 2, 1970, pp. 124-29.

Table 7.1

Australia's Aid to Indonesia
1951/2 - 1965/6 (A$)

	Aid to Indonesia			Bilateral Aid	Multilateral	
Year	Economic Development	Technical Assistance & Training	Total		Indonesian Share	
	$'000	$'000	$'000	$ million	%	$ million
1951/52	-	-	-	8.5	-	1.2
1952/53	-	28	28	6.8	0.4	1.9
1953/54	467	60	537	5.4	10.0	1.8
1954/55	3	382	185	4.9	3.8	2.0
1955/56	850	415	1,265	9.4	13.5	1.3
1956/57	908	615	1,523	10.1	15.0	5.3
1957/58	361	531	892	10.4	8.6	8.3
1958/59	74	587	661	7.4	8.9	6.9
1959/60	809	475	1,284	10.4	12.4	8.8
1960/61	447	490	937	11.3	8.3	9.1
1961/62	957	563	1,520	12.3	12.3	7.7
1962/63	1,344	536	1,880	15.0	12.5	10.1
1963/64	1,018	533	1,551	14.1	11.0	10.7
1964/65	598	475	1,073	24.2	4.3	5.2
1965/66	496	492	988	25.8	3.8	8.0

Source; H. W. Arndt, "Australian Economic Aid to Indonesia," *Australian Outlook*, Vol. 240 no. 2, 1970, p. 127

There was no doubt that the aid program initiated some of the economic activities between Australia and Indonesia. The flow of economic aid from Australia helped the Indonesian government to improve its infrastructure projects, particularly in the areas of transportation and telecommunications. Equally, technical and training assistance supported the Indonesian government in upgrading its human resources development. In short, Australian economic aid was in part responsible for improvements in Indonesia's domestic economy.

The rationale behind Australia's aid donations under the Colombo Plan throughout the period between 1945 and 1966 was strongly strategic and political. Commercial and economic considerations were not paramount. Australia was attempting to ensure that countries nearby resisted communist influence, and to encourage regional stability. The Australian government strongly believed that instability among its near neighbours would be damaging to Australia's own interests. Economic aid, from the Australian perspective, was for certain political and strategic purposes. Seen in this light, it is not surprising that economic aid was vulnerable to political conflict. It could be easily disrupted were different political ideologies adopted by the two governments. A good example is the period of confrontation from 1963-66. During that time, as revealed in chapter one, Indonesia under Soekarno and Australia under Menzies were ideologically and strategically opposed. The former tended to be closer to the communist bloc, an alignment which greatly worried the latter who was vehemently anticommunist. Soekarno's opposition to the proposed Federation of Malaya was strategically at loggerheads with Menzies' full support for the proposal. As a result, the bilateral relationship between Australia and Indonesia cooled, and in the end Australia substantially reduced its economic aid to Indonesia.

As well as the difficulties caused by conflict at a political level, the early stages in the bilateral economic relationship were also hampered by several other issues. In Australia, there was wide concern over Indonesian domestic politics which were seen as increasingly falling under communist influence. The public support that Menzies gained for his stance on Indonesia's confrontation policy encouraged him to go even further and he cut some areas of aid. In Indonesia, difficulties were experienced mainly

in the area of expertise. Lack of expertise resulted in difficulties in the long term management of projects and as result their maintenance was often neglected.[4] Regardless of its political and strategic purposes, this economic aid program, nevertheless, made a positive economic contribution. The aid donations resulted in some economic activities being undertaken between Australia and Indonesia. These economic activities were not very great considering the geographic proximity of the two countries, though they have become very important within the overall context of the bilateral relationship.

The marginalisation of the economic dimension in Australian-Indonesian relations could also be attributed to various other reasons,[5] besides political ones. Peter McCawley summarises several of these possible explanations.[6] Firstly, he cites the historical factor. The two countries had developed as colonial economies within the sphere of different colonial empires and this left a legacy of quite different perceptions and commercial linkages between Indonesians and Australians on matters related to business. Australia looked to England for its commercial interests and business contacts, and Indonesia to the Netherlands. These links were of course

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[4] *Ibid.*

[5] H. W. Arndt, "Economic Relations Between Australia and Indonesia," in J. A. C. Mackie, ed., *Indonesia: The Making of a Nation,* Canberra, Research School of Pacific Studies, Australian National University, 1980, pp. 741-53; H. W. Arndt, "Australia and Indonesia, Neighbours Forever," University of Western Australia, 1986, Discussion Paper 86.09; Hal Hill, "Australia-Indonesia Economic Relations: Challenges and Opportunities in a 'Small' Relationship," in Desmond Ball and Helen Wilson, eds., *Strange Neighbours, the Australian-Indonesian Relationship,* Sydney, Allen and Unwin, 1991, pp. 215-39; Mari Pangestu, "Bilateral Indonesia-Australia Economic Relations: An Indonesian View," in *ibid,* pp. 183-214; Hal Hill, "Economic Relations," in David Anderson, ed., *Australia and Indonesia, A Partnership in the Making,* Pacific Security Research Institute, 1991, pp 16-25; Mari Pangestu, "Indonesia-Australia Economic Relations into the 21st Century," in Hadi Soesastro and Tim McDonald, eds., *Indonesia-Australia Relations; Diverse Cultures, Converging Interests,* Jakarta, CSIS, 1995, pp. 64-94.

[6] Peter McCawley, "Economic Relations Between Australia and Indonesia," *Australian Outlook,* Vol. 40 no. 3, 1986, pp. 175-81.

encouraged and sometimes enforced by the colonial regimes and overall the economic structures built up during the colonial period continued, and indeed, appeared to change very little even after World War II ended.

Secondly, there was a lack of complementarity between the two countries' general economic policies and the major products which they traded on the world market. Up to the early 1980s, both Australia and Indonesia adopted inward-looking and protective industrial development and economic policies. They both relied heavily on primary products and raw materials as their main exports, had highly regulation economic systems and placed high tariffs on trade, particularly on the import of manufactured goods. Consequently, neither were potential partners for economic cooperation but rather, if anything, they were competitors. There were many barriers to expanding bilateral trade.

Thirdly, there was a low level of entrepreneurship exhibited by Australia. While this has often been said to be responsible for the poor performance of some Australian business groups, it is rather a harsh and unfair criticism. It more properly refers to a lack of knowledge of local culture and language or the way in which Indonesians do business. In addition to this, inadequate transportation and communications within Indonesia have often made it less attractive for Australian businesses to invest or to target Indonesia as their first priority for marketing products.

The bilateral economic relationship between Indonesia and Australia began to change after Soeharto's New Order government assumed power in 1966. Chapter two highlighted Australia's enthusiasm for assisting Indonesia to overcome its

economic chaos. At that time, Australia responded positively to Indonesia's request for aid to assist in the stabilisation of its the New Order economy, by promoting the 'politics of aid'. As part of that strategy, in 1967 Australia joined then the Inter Governmental Group on Indonesia (IGGI), an economic consortium whose members included the USA, the United Kingdom, Japan, France, West Germany, the Netherlands, Canada, Belgium, Denmark, New Zealand, and Italy. The IGGI aimed at managing and coordinating financial support for Indonesian economic development, carried out under the auspices of the World Bank. Thus, Australia's policy of providing aid to Indonesia and encouraging other developed countries to do so generated some increase in economic activity between the two countries.

Bilateral economic activity, however, was still limited, both in terms of value and product diversity. Australia's imports from Indonesia were mainly primary products and so too Indonesia's imports from Australia. Furthermore, as revealed in Table 7.2, a significant proportion of Australia's exports took the form of financial aid. It accounted for almost half of total export value between 1968 to 1972. Although the monetary value of Australia's exports constantly increased, it showed a deficit during the first three years but started to achieve a surplus in 1970. There was little Australian investment in Indonesia at that time, although interest picked up when the Indonesian government introduced its first piece of foreign investment legislation in 1967. All of these figures point to a growth in bilateral economic activity fed by substantial Australian aid. As noted above, there were essential by political and ideological reasons behind the decision to increase its economic aid. Australia rewarded Indonesia's anti-communist stance with its grants of aid. Also, it considered

Indonesia's aid diplomacy toward major Western countries to be a signal that Indonesia would follow the capitalist path in reforming its chaotic economy. Furthermore, Australia strongly believed that Soeharto's New Order government was committed to a low-key, non-aggressive foreign policy, because Indonesia preferred to give priority to regional stability by promising to pursue friendly relations with countries neighbouring.[7]

Table 7.2

Australia's Trade with Indonesia 1967-72 (A$ '0000

	1967-68	1968-69	1969-70	1970-71	1971-72
Aid Finance Export	4, 697	8, 949	11, 075	11, 546	14, 356
Non Aid Export	9, 173	11, 716	24, 191	27, 530	42, 896
Export to Indonesia	13, 870	20, 665	35, 266	39, 076	57, 250
Import from Indonesia	55, 430	59, 956	48, 882	22, 523	14, 312
Balance of Trade	-41, 560	-39, 291	-13, 616	+5, 007	+42, 939

Source; Department of Trade and Industry, Canberra, November 1972.

Increasing Trends

Concerns over the importance of bilateral economic relations to the economic development of Australia and Indonesia have been raised by economists since the 1960s, when political and strategic considerations still dominated the relationship between Australia and Indonesia. Heinz Arndt, among others, has argued that the two countries' geographic proximity and Indonesia's enormous economic potential could provide a complementarity and fulfil both countries' economic needs.[8] However, the

[7] J. A. C. Mackie, "Australia-Indonesia Relations," *Current Affairs Bulletin,* 1 October, 1976.

[8] H. W. Arndt, "Trade Relations Between Australia and Indonesia," *Economic Record,* Vol. 44, 1968, pp. 168-93.

situation was hardly to change until the middle of the 1980s. Bilateral economic relations remained relatively low key and small scale, particularly if measured in terms of the countries total figures on international trade and investment.

However, the situation has changed since Australia and Indonesia started to open their economies to global markets during the mid 1980s. The bilateral exports and imports show that the value of the bilateral economic relationship increased significantly between 1986 and 1996. As Table 7.3 indicates, in 1986 Australia's exports to Indonesia were valued at less than a million but then doubled within four years to reach A$1,030 million in 1989/90. Exports grew steadily and by 1994/95 they were valued at A$2,113 million. Although Australia's imports from Indonesia for the same period did not increase as rapidly as did exports, nevertheless they also increased. In 1986 the value of Australia's imports from Indonesia was A$310.6 and remained around that level up to 1990. Since that time, they have steadily increased and by 1994/95 were worth A$1.198 million. This figure represents a very significant improvement when compared with similar indicators from the 1970s as shown in Table 7.2.

Table 7.3

Australia's Exports to and Imports from Indonesia (A$ million)

Year	Exports	Imports
1986-1987	528.3	310.6
1987-1988	595.3	587.7
1988-1989	748.3	418.9
1989-1990	1,030	441.1
1990-1991	1,462	784
1991-1992	1,635	995
1992-1993	1,714	1,305
1993-1994*	1,906	1,105
1994-1995*	2,113	1,198

Source; Australian Bureau of Statistics, *Year Book Australia,* (1986-94).
*Australian Bureau of Statistics, *Balance of Payments and International Position, Australia,* Cat. No. 5363.0

Table 7.4

Indonesian-Australian Bilateral Exports and Imports in US$ '000

Year	Indonesia to and from Australia		Australia to and from Indonesia	
	Exports	Imports	Exports	Imports
1986	158,584	413,452	304,013	189328
1987	309,847	462,724	290,114	358999
1988	293,271	578,447	503,512	315107
1989	382,421	924,841	752,494	383941
1990	403,037	1,185,957	1,074,394	406655
1991	627,951	1,377,936	1,137,415	701333
1992	746,111	1,412,961	1,103,875	923468
1993	773,672	1,399,374	1,299,535	833884
1994	705,368	1,541,962	1,622,469	763714

Source; United Nations, *International Trade Statistics Yearbook,* Vol. 1 Trade by Country, annual, 1986 -1994.

Furthermore, Indonesia's exports to Australia as a percentage of its total exports also increased. As Table 7.5 suggests, that in 1972 they were 0.8 per cent but reached 2.4 per cent in 1982. The number fell to 1.5 per cent in 1986 and dropped further to 0.7 per cent in 1993, recovering, however, in 1994 when it reached 1.8 per cent. Although the numbers fluctuated during the period between 1972 and 1994, it was nonetheless an impressive improvement. Overall, Indonesia's exports to Australia grew by more than 100 per cent, while Indonesian imports from Australia as a percentage of total Indonesian imports, rose from 3.3 per cent to 4.8 per cent for the period 1972-94.[9] This remarkable change has made Australia one of Indonesia's major trading partners, now ranking in tenth position in Indonesia's export market and sixth (4.8 per cent) as a source of imports, following Japan 24.2 per cent, the United States 11.2 per cent, Germany 7.7 per cent, Singapore 5.9 per cent and the Republic of Korea 5.3 per cent (see Table 7.5).

[9] Carunia Mulya Firdausy, "Trade and Investment Relations Between Indonesia and Australia: A Review of Recent Trends," a paper presented at the Second Indonesian Student Conference, Canberra 21-22 August 1996, p. 2.

Table 7.5

Indonesia's Exports and Imports by Country
(per cent of total value)

Country	1972		1982		1986		1993		1994	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Asia										
Japan	50.7	34	50.2	25.4	48.9	37.6	30.4	22.1	27.3	24.2
Malaysia	1.7	0.5	0.3	3	0.6	0.7	1.6	1.8	1.8	1.8
Philipines	0.5	0.3	1.3	1.4	0.8	0.8	0.8	0.2	0.9	0.2
Singapore	7.5	6.5	14	16.7	8.9	12.2	9.2	6.3	10.4	5.9
Thailand		2	0.1	1.2	0.6	1.7	1.3	0.8	1	1.3
Europe										
Germany	3.7	7.5	1.1	7.1	2.2	8.5	3.2	7.3	3.2	7.7
Netherlands	4.4	4.3	1.2	1.1	3.7	2.4	2.9	2.2	3.3	1.8
U.K	1.3	4.1	0.6	2.6	1.5	3.7	2.7	2.8	2.6	2.2
France	0.6	1.3	0.2	3.4	0.3	2.4	1.4	3	1.1	2.5
America										
USA	14.9	15.6	15.9	14.3	21.5	18.3	15.8	11.5	13.1	11.2
Canada	4.2	0.7	4.3	1.8	0.7	2.4	0.8	1.5	0.8	1.6
Australia-Oceania										
Australia	0.8	3.3	2.4	2.2	1.5	0.7	0.7	4.9	1.8	4.8
New Zealand	0.1	0.3	1.2	0.6	0.7	0.2	0.1	0.6	0.1	0.5
Total	100	100	100	100	100	100	100	100	100	100
Value in US$ million	n.a		n.a		14,81	10,72	36,82	28,33	40,05	31,98

Source; Central Bureau of Statistics, *Indonesian Foreign Statistics*, cited in Carunia Mulya Firdausy, "Trade and Investment Relations Between Indonesia and Australia: A Review of Recent Trends," a paper presented at the Second Indonesian Student Conference, Canberra 21-22 August 1996, p. 3.

Table 7.6

Main Countries for Australia's Merchandise Exports

1986	Country	US$ '000	1989-90	Country	A$ million	1994-95	Country	A$ million
1	Japan	5,221,123	1	Japan	12,760	1	Japan	16,278
2	USA	1,897,199	2	USA	5,410	2	South Korea	5,248
3	China & Taiwan	957,629	3	South Korea	2,700	3	New Zealand	4,789
4	New Zealand	907,834	4	New Zealand	2,616	4	USA	4,662
5	South Korea	845,970	5	Singapore	1,983	5	Singapore	3,592
6	U.K.	756,956	6	Taiwan	1,812	6	Taiwan	3,102
7	USSR	652,789	7	U.K.	1,728	7	China	2,964
8	France	536,077	8	Hong Kong	1,341	8	Hong Kong	2,632
9	West Germany	517,648	9	China	1,171	9	U.K.	2,278
10	Italy	467,921	10	Germany	1,050	10	Indonesia	2,113
11	Hong Kong	405,778	11	Indonesia	1,030	11	Malaysia	2,033
12	P.N.G	385,637	12	Italy	967	12	Thailand	1,561
13	Singapore	379,000	13	Malaysia	932	13	Italy	1,269
14	Indonesia	304,013	14	Holland	860	14	Canada	1,135
15	Holland	300,253	15	France	829	15	Germany	1,107

Source; 1986 compiled from *1993 International Trade Statistics Yearbook,* (New York; United Nations, 1995). Data for 1989/90 and 1994/95 compiled from Australian Bureau of Statistic, *Balance of Payments and International Investment Position, Australia,* Cat. No. 5363.0

In terms of a market for manufactured goods and merchandise exports, similarly, Indonesia's economic significance to Australia had improved significantly during the last ten years. Table 7.6 suggests that Indonesia has been in the top 15 of Australia's markets for exports. In 1986, Australia's exports to Indonesia were valued at A$304[illegible] million which placed Indonesia in fourteenth position as a market. Within four years, the figure improved rapidly and by 1989/90 it was valued at A$1.030 billion, moving Indonesia's ranking to eleventh. In 1994/95 Indonesia's position was raised further, to number ten. The figure for Australian exports to Indonesian in that year reached A$2.113 billion, and in 1996 it topped A$2.771

billion.[10] In terms of annual growth, moreover, a study has estimated that the growth rate for Indonesia's exports to Australia between 1994 and 1995 was about 29 per cent, while the growth rate for Australia's imports from Indonesia was 21 per cent.[11] Clearly, the trend indicates a rapidly increasing improvement in the bilateral economic relationship in terms of a two way traffic in exports and imports.

In addition to the substantially increased value of exports and imports, traded commodities have also diversified significantly. Indonesian exports to Australia have progressively moved away from oil and traditional plantation-based products to manufactured goods. Table 7.7 indicates that in 1986 the share of manufactured products in Indonesia's exports to Australia was 22.3 per cent. It almost doubled by 1994 and reached 40.2 per cent. Textiles, synthetic fabric, plywood, and garments were the biggest manufactured exports, accounting for 5.1 per cent, 3.6 per cent, 2.7 per cent, and 2.5 per cent respectively. In 1994, this figure further improved. Table 7.7 shows that Indonesia's largest manufactured export to Australia in 1994 was still textiles and that it increased to 14.1 per cent. This was followed by textile yarn at 7.8 per cent, paper and cardboard at 6.0 per cent, furniture and parts at 4.1 per cent, footwear at 3.9 per cent, and wood products at 3.0 per cent. However, within the same period, the share of primary products in Indonesia's exports to Australia declined sharply from 76.9 per cent to 43.6 per cent. In 1986, Indonesia's main primary products exported to Australia accounting for 60.9 per cent, but decreased to 43.6 per cent in 1994.

[10] The 1996 data is taken from DFAT as published in Geoff Hiscock, "Opportunity knocks again," *The Weekend Australian*, 7-8 December 1996, p. 58.

[11] A. Taylor, "Australia and Indonesia: Challenge for the Future in the Region," *Economic and Business Review Indonesia*, no. 220, 1996, pp. 32-3.

Table 7.7

Indonesia's Main Exports to Australia 1986 and 1994
US$ '000

Commodity Groups	1986		1994	
	Value	Percent	Value	Percent
Primary Products	**122.0**	**76.9**	**307.1**	**43.6**
Crustacean mollusc and aquatic invertebrates	0.9	0.6	3.4	0.5
Preserved food	0.2	0.1	1.8	0.3
Coffee	12.2	7.7	4.4	0.6
Tea	10.1	6.4	5.6	0.8
Natural rubber	0.0	0.0	15.5	2.2
Processed wood	2.1	1.3	12.1	1.7
Copper ore	0.0	0.0	7.5	1.1
Nickel ore	0.0	0.0	8.8	1.2
Crude oil	96.6	60.9	224.8	31.9
Crude vegetable oil	0.0	0.0	11.2	1.6
Other vegetable oil	0.0	0.0	10.1	1.4
Processed oil	0.0	0.0	1.9	0.3
Manufactures	**35.3**	**22.3**	**283.0**	**40.2**
Fertiliser	1.8	1.1	1.2	0.2
Tyres	1.7	1.1	3.9	0.6
Plywood	4.3	2.7	19.9	2.7
Wood products	0.1	0.1	21.2	3.0
Paper and cardboard	1.1	0.7	42.2	6.0
Other paper products	0.0	0.0	8.5	1.2
Textiles	8.0	5.1	99.3	14.1
Textile yarn	1.2	0.7	54.7	7.8
Synthetic fabric	5.7	3.6	20.7	2.9
Cotton fabric	0.7	0.4	6.6	0.9
Glassware	0.7	0.4	2.6	0.4
Construction machinery	0.0	0.0	0.3	0.1
Equipment for distributing electricity	0.0	0.0	6.4	0.9
Electric machinery and appliances	0.9	0.6	7.3	1.0
Furniture and parts	0.6	0.4	28.3	4.1
Garments	3.9	2.5	18.5	2.6
Men and boys wear	0.0	0.0	6.9	1.0
Ladies and girls wear	2.7	1.7	3.9	0.6
Footwear	0.1	0.0	27.7	3.9
Plastic products	1.1	0.7	9.1	1.3
Other miscellaneous manufactures	0.6	0.4	5.4	0.8
Sub-Total	**147.0**	**92.7**	**590.1**	**83.8**
Total	**158.6**	**100.0**	**704.5**	**100.0**

Source; BPS, *Statistik Perdagangan Luar Negeri Indonesia, Ekspor*, Vol. II, Table 8, 1987 & 1995.

Table 7.8

Indonesia's Main Imports from Australia 1986 and 1994 (US$ '000)

Commodity Groups	1986		1994	
	Value	%	Value	%
Primary Products	**293.3**	**70.9**	**898.1**	**58.3**
Live animal chiefly for food	4.0	1.0	44.6	2.9
Milk and cream	8.7	2.1	23.3	1.5
Butter	6.9	1.7	5.2	0.3
Cheese and curd	1.8	0.4	7.6	0.5
Wheat and Meslin	121.0	29.3	201.4	13.1
Meal and flour	0.0	0.0	0.1	0.0
Cereal, prep and flour	4.1	1.0	4.7	0.3
Feeding stuff for animals	6.3	1.5	13.6	1.0
Cotton	17.6	4.3	129.8	8.4
Other crude minerals	2.4	0.6	22.1	1.4
Waster/scrap metal	13.4	3.2	9.2	0.6
Aluminium ores + cons	0.0	0.0	62.1	4.0
Ores and concentrates	36.0	1.0	1.3	0.6
Coal	13.1	3.2	7.5	4.0
Crude oil	0.0	0.0	166.2	10.8
Refined oil	0.4	0.1	12.2	0.8
Copper	1.1	0.3	33.0	2.1
Nickel	8.3	2.0	0.0	0.0
Aluminium	8.0	1.9	84.1	5.5
Lead	7.0	1.7	12.1	0.8
Zinc	33.1	8.0	58.0	3.8
Manufactures	**52.6**	**12.7**	**281.7**	**18.3**
Inorganic chemicals	8.3	2.0	14.1	0.9
Pigments, Plants, varnished	1.8	0.4	15.6	1.0
Other plastics	0.0	0.0	12.0	0.8
Polymerisation products	11.1	2.7	0.0	0.0
Ingots & other primary forms	11.6	2.8	27.8	1.8
Flat rolled products not clad	0.1	0.0	23.4	1.5
Flat rolled products clad, plated (steel)	6.2	1.5	14.2	0.9
Structures & parts; iron, steel, aluminium	2.1	0.5	43.0	2.8
Hand & machine tools	1.8	0.4	2.8	0.2
Manufactures of base metal	1.1	0.3	17.4	1.1
Civil engineering & contractor	1.2	0.3	21.4	1.4
Other specialised machine	1.1	0.3	12.5	0.8
Heating & cooling equipment	0.8	0.2	18.4	1.2
Pumps for liquid and parts	0.7	0.2	7.6	0.5
Pumps and compressors	0.5	0.1	7.7	0.5
Mechanical, handling equipment	0.8	0.2	13.3	0.9
Other non electric machinery	1.8	0.4	8.7	0.6
Automatic data processing machines	0.5	0.1	9.3	0.6
Electrical apparatus	0.1	0.0	6.6	0.4
Measuring equipment manufactures	1.1	0.3	5.9	0.4
Sub-Total	**398.5**	**96.4**	**1179.8**	**76.1**
Total	**413.5**	**100**	**1541.9**	**100.0**

Source; BPS, *Statistik Perdagangan Luar Negeri Indonesia, Impor,* Vol. II, Table 8, 1987 & 1995

The diversification in Australia's exports to Indonesia has also been a steady trend. Evidence for this can be found in the change in Indonesia's imports from Australia in the last ten years. Table 7.8 shows that in 1986, Indonesia's main imports from Australia consisted of primary products, which accounted for 70.9 per cent of the total. Wheat, zinc, coal, and waste/scrap metal were the major contributors, accounting for 29.3 per cent, 8 per cent, and 3.2 per cent respectively. These primary products fell to 58.3 per cent in 1994, when wheat dropped to 13.1 per cent, while zinc and scrap metal went down to 3.8 per cent and 0.6 per cent respectively. Only coal slightly increased to 4.0 per cent (see Table 7.8). In terms of manufactured products, this table also indicates that there was an overall increase. In 1986, Indonesia's import of manufactured products from Australia was 12.7 per cent of its total import of Australian products and was valued at US$52.6 million. The number increased to 18.3 per cent and in value to US$281.7 million in 1994. The fastest growing sector of Australia's manufactured exports to Indonesia has been elaborately transformed manufactures including telecommunications equipment and parts, general industrial machinery and electrical switches. In 1992 this type of product accounted for 22 per cent of Australia's exports to Indonesia.[12] Figures in Table 7.8 seem to suggest that this increase has been sustained. In short, there has been a significant diversification of Australia's exports to Indonesia, with a shift from primary products to manufactured goods.

It is also worth noting, however, that Tables 7.7 and 7.8 suggest that the increasing value of manufactured products has not been able to overtake the

[12] Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's Relationship with Indonesia,* Canberra, AGPS, 1993, p. 7.

cumulative value contributed by trade in primary products. Crude petroleum, mining, primary products and some unprocessed and semi-processed goods remain the most significant goods Australia exports to Indonesia. The situation, nevertheless, has been improved since deregulation policies were introduced, resulting in the high growth of manufacture products and the creation of many new trade opportunities for both countries.[13]

Table 7.9

Bilateral Investment A$ million

Year	Australia in Indonesia	Indonesia in Australia
1990	315	117
1991	173	67
1992	282	np
1993	455	224
1994	640	199
1995	1,004	263

Source; Australian Bureau of Statistics, *Balance of Payments and International Position, Australia,* Cat. No. 5363.0

Just as trade in primary products and manufactured goods has increased, so too is investment displaying a similar trend. Traditionally, Australia's major investments have been directed mostly to its leading economic partners within the developed OECD countries. The USA, the United Kingdom, and New Zealand have been the main recipients. In 1981, the level of Australia's outward investment to these three countries accounted for 14.4 per cent, 10.3 per cent, and 9.7 per cent respectively. Ten years later (1991), the figure had increased rapidly and reached 22.9 per cent, 38.7 per cent, 15.1 per cent respectively for the USA, the United

[13] *Ibid.*

Kingdom, and New Zealand.[14] Obviously, Australia's investments in developing countries is smaller than those in OECD countries. Figures provided by the Australian Bureau of Statistic indicate that Singapore, Hong Kong, and Papua New Guinea have been absorbing half of Australia's investments going to developing countries. In 1991/92, these countries' cumulative share of overall Australia's outward investments were 2.3, 4.9, and 2.0 per cent respectively, but the overall trend of Australia's investments in non OECD countries has increased and diversified too.[15]

Australia's investment with Indonesia has evolved and expanded and in 1995 it accounted for 4.2 per cent of cumulative foreign investment approvals into Indonesia. However, Indonesia's investment in Australia was estimated at 0.1 per cent of Australia's total incoming investment in 1994.[16] Table 7.9 reveals that in 1990 Australia's investment in Indonesia was valued at A$315 million, while at the same time Indonesia's investment in Australia was A$117 million. In 1991 and 1992, years of global recession, both country's level of investment fell, but in the years after that they recovered significantly. In 1993 Australia's investment in Indonesia was valued A$455 million, increasing to A$640 million in 1994, and then reaching A$1.004 billion in 1995. Indonesian investment in Australia was valued A$224 million in 1993, fell to A$199 million in 1994 but then increased to A$263 million in 1995. Although this figure seems to suggest that the investment pattern between Australia and Indonesia is very small compared to their major investment partners, it does indicate an impressive development over the previous years. In 1986, Australia's investment in

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[14] East Asia Analytical Unit, Department of Foreign Affairs and Trade, *Changing Tack, Australian Investment in South-East Asia,* Canberra, AGPS, 1994, p. 30.

[15] Mari Pangestu, "Indonesia-Australia Economic Relations into the 21st Century," in Hadi Soesastro and Tim McDonald, eds., *op. cit.*, p. 92.

[16] Carunia Mulya Firdausy, *op. cit.*, p. 1.

Indonesia was A$7 million, it increased to A$21 million in 1987 and reached A$357 million by 1988. Between 1988 and 1992 the value dropped. In 1989 it fell to A$157 million followed by a slight increase to A$182 in 1990, but then decreased sharply to A$48 million and A$68 in 1991 and 1992.[17] Overall these figures have shown not only a recovery but also an increase in investment patterns between Indonesia and Australia.

Table 7.10

Australia's Investment in Indonesia by Sector ($US million)

Sector	1992		1993		1994		1995	
	No.	Value	No.	Value	No.	Value	No	Value
Food Plantation	-	-	-	-	-	-	-	-
Farming-	-	-	-	-	-	-	-	-
Animal Husbandry	-	-	-	-	-	-	-	-
Fishery	-	-	-	-	-	-	-	-
Forestry	-	-	-	-	-	-	-	-
Mining	2	560.7	1	60	2	285	2	550
Total Primary Sector	2	560.7	1	60	2	285	2	550
Food Processing	-	-	1	35,054.0	-	-	3	13,610.0
Textile	-	-	1	900	-	-	2	520
Wood	-	-	-	-	1	3,500.0	-	-
Paper	-	-	-	-	-	-	1	9,446.18
Pharmaceutical	-	-	-	-	-	-	-	-
Chemical Industry	3	14,700.0	-	-	1	4,766.0	4	3,394.7
Non-metal mining	1	33,782.9	1	9,890.0	-	-	3	26,600.0
Metal mining	1	2,447.5	1	60	1	8,850.0	1	11,819.0
Metal industry	3	7,726.48	2	29,500.0	4	11,700.0	3	12,897.4
Other industries	-	-	-	-	-	-	1	740.37
Total Secondary Sector	8	58,656.9	6	135,344.0	7	28,816.0	18	3,470.34
Electricity & water	-	-	-	-	-	-	1	176,000.0
Building	1	7,828.72	2	6,000.0	2	7,000.0	2	57,650.0
Trade	-	-	2	2,000.0	1	300	2	1,260.0
Hotel & Restaurant	-	-	1	2,540.0	1	2,000.0	1	850
Transportation	-	-	-	-	1	1,000.0	1	1,000.0
Real estate	-	-	1	3,400.0	-	-	-	-
Office	-	-	-	-	-	-	-	-
Other services	1	1,350.0	3	3,900.0	5	14,145.0	13	5,283.0
Total Teriary Sector	2	9,178.72	9	17,840.0	10	24,445.0	20	242,043.0
Total	12	68,396.34	16	153,244.0	19	53,546.0	40	3,712,926.95

Source: Secondary and tertiary sector from National Board of Investment Coordination (BKPM), April 19, 1996. Primary sector compiled from various government statistical sources. Cited in Okta Fitriani, "Pengaruh Dinamika Hubungan Politik Australia dan Indonesia Teradap Investasi Langsung Australia di Indonesia Pada Masa Pemerintahan Paul Keating," Thesis submitted to Department of International Relations, Faculty of Political and Social Sciences, Airlangga University for obtaining S1 Degree (Honours Thesis equivalent), Surbaya, 1996, p. 8.

[17] East Asia Analytical Unit, Department of Foreign Affairs and Trade, *Changing Tack*, p. 44

In addition to the sheer increase in volume, the pattern of Australia's investment in Indonesia has diversified its focus from the primary sector to the secondary and tertiary sectors. Although mining remains Australia's major private sector investment area, since 1990, investors have successfully moved into secondary and tertiary sectors. As Table 7.10 indicates, in 1992 Australia's total investment in the secondary sector was around US$58.7 million. It moved up to US$135.3 million in 1993 and then even higher to US$3,470.4 million in 1995, with increases mainly in the areas of chemical, metal and non-metal mining, and food processing. Similarly, Australia's investment in the tertiary sector was US$9.2 million in 1992 and steadily increased to US$17.8 million in 1993. This investment value went up further to US$24.5 million in 1994 and then grew by an amazing ten times, reaching US$242.043 million in 1995. This investment was mainly in trade, building construction, electricity and water, in hotels and restaurants, and in transportation.

Table 7.11

Foreign Investment in Indonesia 1 January 1967 - 31 October 1995

Rank	Country	US$ million	N. of Projects
1	Japan	18,138,900	771
2	Hong Kong	13,336,200	327
3	United Kingdom	12,167,300	173
4	Singapore	9,222,900	451
5	Taiwan	7,815,100	385
6	USA	7,204,300	207
7	South Korea	6,313,400	373
8	Australia	5,371,200	191
9	Germany	3,473,800	84
10	Netherlands	3,148,200	133

Source; Biro Pusat Statistik, *Indikator Ekonomi,* (monthly bulletin) January 1996, Jakarta, Biro Pusat Statistik

Indonesia's investment in Australia, on the other hand, has been relatively small. Compared to other ASEAN countries, for example, Indonesia's share of overall foreign investment in Australia has lagged behind that of Singapore and Malaysia, which accounted for 2.9 and 0.2 per cent of the total respectively. However, if the annual growth rate is taken into account, this gives a quite different picture of Indonesia's investment in Australia. Between 1985/86 and 1991/92, the annual growth rate of investment by Indonesia in Australia was 55.6 per cent, while for the same period Singapore and Malaysia's rate of investment grew at only 1.3 and 13.3 per cent each.[18] It is predicted that this impressive annual growth will steadily increase given the 'go public' trend pursued by many companies in Indonesia, and the more international and globalised outlook adopted by Indonesian business groups.

Table 7.12

Indonesia's Approval of Foreign Investment 1992-1993
Ranked According to Value
(US$ million)

1992	Country	Value	No.	1993	Country	Value	No.
1	Japan	1,510.6	51	1	Singapore	1,460.2	57
2	Hong Kong	1,020.9	40	2	Japan	836.1	54
3	U.K.	978.2	18	3	South Korea	661.4	22
4	USA	922.5	19	4	USA	445.5	19
5	South Korea	618.3	22	5	Hong Kong	384.1	24
6	Taiwan	563.3	21	6	Netherlands	311.4	11
7	Singapore	465.1	57	7	U.K.	301.1	14
8	Netherlands	96.2	10	8	France	158.0	6
9	Australia	67.8	10	9	Australia	153.2	15
10	Germany	36.7	6	10	Taiwan	1314	21
11	Belgium	21.7	3	11	Germany	120.6	8
12	France	19.9	3	12	India	76.0	2
13	New Zealand	17.1	3	13	Canada	46.5	2
14	Switzerland	11.5	5	14	Switzerland	17.9	5
15	India	7.9	1	15	Belgium	9.9	3

Source; *Indikator Ekonomi (Economic Indicator),* monthly bulletin, January 1996, Jakarta, Biro Pusat Statistik.

[18] Mari Pangestu, "Indonesia-Australia Economic Relations into the 21st Century," *op. cit.,* p. 93

Table 7.13

Indonesia's Approval of Foreign Investment 1994-1995
Ranked According to Value
(US$ million)

1994	Country	Value	No.	1995	Country	Value	No.
1	Hong Kong	6,041.7	36	1	U.K.	6,026.7	28
2	U.K.	2,957.1	15	2	Australia	5,658.5	57
3	Taiwan	2,487.5	48	3	USA	2,691.6	33
4	South Korea	1,849.1	35	4	Japan	2,117.5	118
5	Singapore	1,664.4	97	5	Hong Kong	1,661.2	38
6	Japan	1,562.5	75	6	Germany	1,338.8	18
7	USA	977.0	18	7	South Korea	630	48
8	Netherlands	165.7	13	8	Singapore	592.1	109
9	Germany	113.1	7	9	Taiwan	511.8	76
10	Switzerland	70.8	10	10	Switzerland	40.1	4
11	Australia	53.3	10	11	France	39.7	8
12	France	37.1	1	12	Norwegian	13.2	2
13	Canada	30.0	4	13	Canada	10.2	6
14	Italy	22.0	1	14	Belgium	8.9	5
15	Denmark	15.9	2	15	India	4.8	713

Source; *Indikator Ekonomi (Economic Indicator)*, monthly bulletin, January 1996, Jakarta, Biro Pusat Statistik.

Furthermore, Australia's position in terms of Indonesia's major foreign investors, makes the sector a major catalyst of the economic integration between Indonesia and Australia. Since Indonesia introduced an open economic policy to foreign investment in 1967, Australia's position has become significant. As Table 7.11 suggests, between January 1967 to October 1995, Australia was in the top ten of foreign countries investing in Indonesia in terms of investment value. It was in eighth position behind Japan, Hong Kong, the United Kingdom, Singapore, Taiwan, the USA, and the Republic of Korea. Germany and the Netherlands were in position ninth and tenth respectively.. Australia's position, moreover, is increasing in importance given the trends of its investment in Indonesia in the last four years. Table 7.12 shows that in 1992 Australia's investment was valued at US$67.8 million and ranked ninth

overall in Indonesia's foreign investment approvals. In 1993, Australia's ranking remained at that point but the value of investment increased to US$153.3 million. As Table 7.13 suggests, however, Australia's investment declined to US$53.3 in 1994 which sent Australia to eleventh place, but in 1995 this went up sharply to US$5,658.5 million pushing Australia into the second spot, just slightly behind United Kingdom which reached US$6,026.7 million. Clearly, these figures indicate Australia's improved position in investment pattern relations with Indonesia.

In terms of its percentage value and cumulative total share, Australia's investment in Indonesia has generally been performing well. Table 7.14 indicates that between 1967 to May 1994, Australia's cumulative share of overall foreign investment in Indonesia was 2.1 per cent. Two years later, this figure improved reaching 3.8 per cent, an increase of more than 50 per cent.

Table 7.14

Foreign Investment in Indonesia
Percentage of Share of Cumulative

Country	1967-1994	1967-1996
Japan	19.8	19.6
Hong Kong	11.3	11.2
Taiwan	8.2	5.6
Singapore	5.7	8.1
USA	4.9	7.5
South Korea	4.9	4.4
United Kingdom	4.5	16.9
Netherlands	3.5	6.4
Germany	2.6	3.1
Australia	2.1	3.8

Source; Badan Koordinasi Penanaman Modal (Board of Investment), excludes oil and financial sectors.

The service sector was also part of the boosting of bilateral economic relations and deserves close examination for two reasons. One is that, theoretically, the increasing trade in manufactured goods and growth in investment is generally followed by a corresponding demand in services which facilitate trade. The more the trade and investment grow, the higher the demand for more and better services. The second reason is that the services sector usually grows and expands after government terminates protection policies and opens the national economy to the outside world. This has been the case in Indonesia.

Along with the opening up of the economy in the mid 1980s, Indonesia's services sector has progressively expanded. In 1988 this sector accounted for 38.9 per cent of Indonesia's overall GDP and reached 39.5 per cent in 1992.[19] This figure could possibly be higher given the range of services traded since it not only covers personal contacts between buyers and sellers, but also includes activities such as surveying, exploration, research, business, financial services, and tourism. These activities occurred in various fields such as geology, mining, mineral exploration, engineering and construction, livestock, agricultural activity, accountancy, legal services, property management, insurance, and education. Data provided by Bank Indonesia shows that areas which contributed most to the growth of Indonesia's services sector were hotels and restaurants, public administration and defence, transport and communications, and banks and financial institutions. In 1992, they accounted for 16.1 per cent, 7.2 per cent, 5.6 per cent, and 4.5 per cent respectively.

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[19] Muliaman D. Hadad and Michael T. Skully, "Business and Financial Services in Indonesia," in East Asia Analytical Unit of Department of Foreign Affairs and Trade, *Expanding Horizons, Australia and Indonesia Into the 21st Century,* Canberra, AGPS, 1994, p. 191.

In the same year, construction, transport, and communication increased by 12 per cent, while the financial sector accounted for 10 per cent.[20] Heinz Arndt and Thee Kian Wie — widely regarded as long time and expert observers on the subject of bilateral economic relations between Australia and Indonesia – have been of the view that the "trade in services between Australia and Indonesia has experienced quite healthy growth in the past decade."[21] They point, for example, to the fact that Australian consultants, be they companies or individuals, have been operating in Indonesia for quite a long period, particularly in the mining area. However, the major recent contributions to trade in the services sector have stemmed from the education, tourism, business, and financial sectors.

In the education sector, the number of Indonesian students studying in Australia has increased. In 1991 there were 3,548 Indonesian students in Australia. The number increased to 4,204 in 1992, 5,578 in 1993, and to 6,517 in 1994.[22] In 1995, this number leapt to around 12,000.[23] Traditionally, the USA has been the first choice for Indonesians studying abroad, followed by Germany, resulting in high levels of Indonesian students in the USA and Germany when compared to other countries. Interestingly, this figure has recently changed. Since 1994, Australia has been the number one choice for Indonesian students. There are, obviously a variety of reasons for this, but one is Australia's reputation for high quality education. Consequently, "there are more Indonesian students studying in Australia then there are anywhere else

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[20] Bank Indonesia, *Annual Report*, 1992/1993, p. 158.

[21] Heinz Arndt and Thee Kian Wee, "Great Differences, Surprising Similarities, Australia, Indonesia and Their Economic Relationship," East Asia Analytical Unit of Department of Foreign Affairs and Trade, *Expanding Horizons*, p. 9.

[22] Australian Department of Employment, Education and Training, *Overseas Student Statistics*, 1993, p. 23 and 1994, p. 35.

[23] A. Taylor, "Australia and Indonesia: Challenge for the Future in the Region," *loc. cit.*

in the world,"[24] and the financial spin-offs from this have been obvious for Australia as the host country.

Table 7.15

Short Term Visitors Movement 1985-1995

Year	Indonesia to Australia	Australia to Indonesia
1985	15, 300	100, 400
1986	17, 700	104, 400
1987	21, 500	117, 400
1988	21, 300	133, 600
1989	22, 200	146, 100
1990	26, 800	158, 000
1991	37, 000	174, 700
1992	45, 900	185, 200
1993	71, 900	201, 000
1994	88, 200	206, 300
1995	124, 200	213, 800

Source; Australian Bureau of Statistics, *Overseas Arrivals and Departures,* various issues.

A similar trend has been evident in the flow of Australian tourists to Indonesia. It has been estimated that Australian tourists heading to Indonesia accounted for 12 per cent of overall Australian tourism. According to Arndt and Thee, there have been two traditional reasons for this. One has been the proximity factor and the second has been the weakness of Indonesian rupiah.[25] This combination has made Indonesia a cheap and attractive tourist destination for Australians. As can be seen in Table 7.15, between 1985 and 1993 Australian tourists leaving for Indonesia steadily increased. In 1985 there were only 100,400 tourists to Indonesia, but by 1995 the number doubled to reach 213,800. This has made Australia the fourth most important source

[24] Ratih Hardjono, "Fifty Years of Indonesian-Australian Relations, A Eurasian Point of View," in Anton Lucas, ed., *Half Century of Indonesian-Australian Interaction,* Flinders University, Asian Studies Monograph No. 6 1996, p. 82.

[25] Heinz Arndt and Thee Kian Wie, "Great Differences, Surprising Similarities, Australia, Indonesia and Their Economic Relationship," East Asia Analytical Unit of Department of Foreign Affairs and Trade, *Expanding Horizons,* p. 14.

of foreign visitors to Indonesia. Although the number of Indonesian tourists leaving for Australia was less than the numbers of Australians to Indonesia, its increase since 1993 has been impressive too. All of the figures indicate a significant rise in tourism, with concomitant increases in tourist facilities such as travel services, hotels, and restaurants.

Table 7.16

Selected Australian-Indonesian Financial Service Connections

Indonesian Company	Australian Associate	Nature of Business
AAJ Associates	Bird Cameron	Financial Advice
AGC Arta Leasing	AGC Ltd	Leasing
ANZ Bank	ANZ Bank	Bank Representative Office
ANZ-Panin Bank	ANZ Bank	Commercial Banking
Commonwealth Bank	Commonwealth Bank	Bank Representative Office
Jardine Fleming	Jardine Fleming Australia	Corp. Finance
National Australia Bank	National Australia Bank	Bank Representative Office
Schroders Indonesia Finance	Schroders Australia	Investment
Grafen Invensindo Finance	New Hope Corp.	Venture Capital
Westpack Bank	Westpac Bank	Bank Representative Office

Source; Austrade Jakarta, *Directory of Business in Indonesia,* Austrade, 1993, cited in Muliaman D. Hadad and Michael T. Skully, "Business and Financial Service in Indonesia," in East Asia Analytical Unit, Department of Foreign Affairs and Trade, *Expanding Horizons, Australia and Indonesia Into the 21st century,* (Canberra; AGPS, 1994), p. 197

Another area contributing to increased service sector trade has been that of financial and business services. One study has revealed that due to the adoption of deregulatory economic policies almost simultaneously by Australia and Indonesia, the two way trade in financial and business services has increased. Using data provided by Austrade Jakarta, furthermore, this study has shown that in 1993, a total of 226 Australian and Indonesian companies made business service connections. These companies activities range from waste management to consulting services, 48 operating in engineering services followed by 43 in mining and exploration, 37 in

managerial and operational services, 30 in consulting, and 16 in the contractor area. The study also has indicated that similar connections between Australian and Indonesian companies occurred in the financial services sector, as it can be seen from Table 7.16.[26]

Australia's bilateral aid has heightened the economic relationship between Australia and Indonesia. Traditionally, Australia's foreign aid has had three basic objectives. The first is humanitarian assistance aimed at alleviating poverty in the recipient country. The second is commercial in nature, providing assistance that will also help prepare the recipient country as a potential market for Australian goods and services. The third is political and security considerations. By providing aid, Australia hopes to help establish regional stability which would guarantee continuity of development thus leading to economic prosperity.[27] These objectives were restated by the Jackson Report in 1984, and have since been supported by the Australian Parliament.[28] Obviously, there have always been pros and cons regarding which aid objective has priority.[29] Nevertheless, recent studies conclude that commercialisation of Australia's aid objective "are coming to influence the shape of the whole program."[30]

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[26] Muliaman D. Hadad and Michael T. Skully, "Business and Financial Services in Indonesia," *op. cit.*, pp. 96-202.

[27] For more elaboration on the evolvement of these objectives see Frank G. Jarrett, *The Evolution of Australia's Aid Program,* Canberra, Australian Development Studies Network, 1994.

[28] Report of the Committee Review, *The Australian Overseas Aid Programme,* Canberra, AGPS, 1984; Joint Committee on Foreign Affairs and Defence, *The Jackson Report on Australia's Overseas Aid Program,* Canberra, AGPS, 1985.

[29] A valuable discussion is in Patrick Kilby, ed., *Australia's Aid Program: Mixed Messages and Conflicting Agendas,* Clayton, Victoria, Monash Asia Institute & Community Aid Abroad, 1996.

[30] David Burch, "The Commercialisation of Australia's Aid Program," in *ibid,* p. 50; see also Rukmani Gounder, *Overseas Aid Motivations, The Economic of Australia's Bilateral Aid,* Sydney, Avebury, 1995.

The same objectives have driven significantly the flows of Australia's bilateral aid to Indonesia. Indeed, it was clearly stated in a submission by the Australian International Development Bureau (then AIDAB) to the Joint Committee on Foreign Affairs, Defence and Trade regarding Australia's relations with Indonesia that Australia's development program (aid) with Indonesia is effective in meeting official objectives: to promote a sustainable economic development in Indonesia; to improve Australia's foreign policy image; and to enhance commercial opportunities for Australian industries in Indonesia.[31]

Table 7.17

Australia's Bilateral Aid to Indonesia (A$ million)

Year	Value
1986-87	60. 9
1987-88	69. 7
1988-89	75. 9
1989-90	75. 7
1990-91	89. 1
1991-92	84. 8
1992-93	127.7
1993-94	130.6
1994-95	135.1

Source; AusAID, *Australia's Overseas Aid Program, Statistical Summary, 1985-1996.*

In general, Australia's bilateral aid to Indonesia has increased at a steady rate between 1986 to 1996. As can be seen from Table 7.17, Australia's bilateral aid to Indonesia in 1986 was A$60.9 million, increasing to A$69.7 million in 1987. It was further increased and by 1990 reached A$89.1 million. The value of this aid jumped to A$127.7 million in 1992 and in the year after reached A$130.6 million. By 1994 it

[31] Australian International Assistance Bureau, *Australia's Development Cooperation Program with Indonesia,* Canberra, AGPS, 1992, p. 29.

reached A$135.1 million. This has made Indonesia the second largest recipient of Australian aid after Papua New Guinea, which was once an Australian colony.

Compared to the amount of aid Indonesia receives from other countries, Australia constitutes a small portion. However, it is significant because it continues to increase while other aid, from example that from the USA, has steadily decreased. The increasing value of Australia's aid, as mentioned previously, has been driven mostly by commercial purposes, the biggest proportion, until recently, being in form of Development Import Finance Facility (DIFF) loans. These were aimed at financially assisting Australian business or investors in expanding their operations in Indonesia. Indeed, Eldridge reveals that the then AIDAB (now AusAID) once proposed that, "not only DIFF but all programs should seek ways to incorporate commercial benefits for Australia."[32] All this has contributed to increased bilateral economic activity between Australia and Indonesia. The aid program provides considerable benefits for both countries.

The Reasons

The first part of this chapter has indicated an increasing integration of the Indonesian and Australian economies. In this part, it is argued that the increasing integration of both economies has been underpinned by Indonesia's economic development achieved through an improved industrial sector. Furthermore, both countries' economic integration has increased since both governments made similar deregulatory responses in relation to economic globalisation. As well, the positive will

[32] Philip Eldridge, "Australian Aid to Indonesia: A Program Search of a Mandate," in Patrick Kilby, ed., *op. cit.*, p. 202.

on the part of both governments to bring the two countries closer together has been a powerful factor in the improved relationship, the "mateship" of Soeharto and Keating being a particularly good example of this.

Indonesia started to industrialise its economy after independence in 1945, but most of the industries had been inherited from the former colonial power, the Dutch. The combination of a lack of expertise to carry on these industries, and the uncertainty of Indonesia's overall economic and political circumstances, was largely responsible for the poor performance of the industrial sector in 1950s and 1960s. As a result, the capacity of Indonesian industry was very low, and in 1966, was estimated to be operating at less than 30 per cent of its capacity.

This situation was immediately improved after Soeharto's new order government assumed power in 1966. It adopted a pragmatic approach to the rehabilitation of the Indonesian economy and adopted a three point program of reform to boost industrial growth. Firstly, the foreign trade regulations were simplified and liberalised in order to facilitate the industry sector obtaining raw materials and capital goods for processing. Secondly, the government fostered the private sector by reducing the privileges previously given to state enterprises. Thirdly, the government attempted to attract foreign investment by introducing a new investment law in 1967.[33] These steps show that the Indonesian government realised its limited capacity to industrialise and that the role of foreign investment was vital. The government recognised that the proper economic climate, supported by credible political stability, would encourage foreign investment in Indonesia's expanding industrial sector.

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[33] Peter McCawley, "The Growth of the Industrial Sector," in Anne Booth and Peter McCawley, eds., *The Indonesian Economy During the Soeharto Era,* Kuala Lumpur, Oxford University Press, 1981, p. 62-4.

This strategy seemed to work. Its early success can be measured by the influx of foreign investment. Between 1967-70 foreign investment entering Indonesia was valued at US$381 million. The value increased to US$933 million in 1971-5 and Indonesia received another US$450 million in 1976, which was then to reach US$672 million in 1977. The money was invested in a range of industries including textiles, chemicals, rubber, basic metals, and non-metallic minerals.[34] More developed countries - such as former members of the IGGI - were interested in investing under Indonesia's new industrial policy. Thus, by and large, Indonesia's industrial policy was successful from the first, and the subsequent increasing value of investment dollars coming into Indonesia suggested that there was a relationship between Indonesia's industrialisation process and its economic integration with foreign countries. It is within this context that the Australia-Indonesia economic relationship should be understood. The first part of this chapter revealed that Australia falls within the top ten foreign investors in Indonesia after the overall value of investment between 1967 to October 1995 was counted. Undoubtedly, these countries' economic engagement with Indonesia was made possible by the new industrial policies taken by the Indonesian government. Australia has been part of that economic engagement.

Although the industrialisation of Indonesia continued, the total economic output growth of its productive base began to slightly slow after 1975. This followed the collapse of Pertamina (the state-owned oil company) allegedly through the mismanagement of its board. Pertamina failed to repay a short-term loan, valued at US$40 million, it received from a group of US banks and another US$60 million to a

[34] *Ibid,* p. 66.

Canadian group of banks. In total it had a debt of US$10.5 billion.[35] The crisis, without doubt, sent an alarm signal to foreign investors. It reduced, to some extent, their confidence in opening new investments or expanding existing ones. The most risky impact was that that the Pertamina crisis might push the Indonesian government out of international market.

However, Indonesia successfully rehabilitated its reputation overseas following the saga over Pertamina, and by the early 1980s its economy recovered. Having learnt from past experience, Indonesia subsequently adopted policies designed to expand and improve the output and international competitiveness of its industrial sector. Selective regulations were imposed on imported industrial products in order to protect domestic industrial development. These were hastened by the fact that the price of oil, on which Indonesia relied heavily for its revenue, slumped in 1982. Since then the industrialisation process has been an integral part of the overall liberalisation of Indonesia's economy. In its drive to industrialise, the Indonesian government has utilised a fairly orthodox strategy which emphasises priority in macro-economic stability, a reliable exchange rate policy, continuity of supply for industrial needs, and the upgrading of efficiency in enhancing investment inflow.[36]

The success of the industrial sector was quickly apparent at least as shown by the following indicators, the industrial product output, the changing structure of the industry, the increasing and diversification of exported manufactured products,

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[35]For a further elaboration see John Bresnan, *Managing Indonesia, The Modern Political Economy*, New York, Columbia University Press, 1993, especially chapter seven, pp. 164-193.

[36] Hal Hill, *Indonesia's Industrial Policy and Performance: 'Orthodoxy' Vindicated*, Canberra, Economic Division, RSPAS and Asian Studies, the ANU, 1995.

ownership shares in Indonesian manufactures, and the performance of small industry.[37] In terms of industrial products, three categories, consumer goods, intermediate goods, engineering goods, have all performed well, successfully doubling their output in 1991 from that in 1984.[38] Further, Indonesia's industrial structure has also changed. The market shares of the previously dominant traditional industrial sectors, such as food, beverage, tobacco, and rubber processing, have fallen and been replaced by the sharply increasing market shares of those sectors which are essentially labour intensive. The low cost of labour, as an input to production in areas such as textiles, garments and footwear, makes them more internationally competitive. In terms of shares of ownership, industrialisation in Indonesia has also provided more opportunities for private sectors to own shares in various types of industries. Moreover, industrialisation has also helped to increase the exports of goods produced by smaller firms.[39] Overall, industrialisation in Indonesia has significantly reduced the share of agriculture in total product output, but it still contributes around 20 per cent to Indonesian GDP. Thus, Indonesia's economic development has been achieved partly by the contribution of the increased development of the industrial sector. All this evidence indicates that the industrialisation of Indonesia has been successful, though Indonesia is not yet an industrial country.

The entire process is still going on, but the success of Indonesia's industrialisation since the mid 1980s has been summarised by one of Indonesia's leading economists, Hal Hill, as a first major transformation of manufacturing industry

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[37] For this part I rely on a recent detailed study by Hal Hill, *The Indonesian Economy Since 1966*, Cambridge, Cambridge University Press, 1996.

[38] *Ibid*, p. 154.

[39] *Ibid*, p. 169

in Indonesia's history. It has proceeded from the limited, backward technology, and chaotic commercial environment Indonesia had in 1965, to the situation where the "sector was much larger and more diversified, and employed more sophisticated technology", and was supported by a politically stable regime with a creditable record of sound macro-economic management.[40] There is no doubt that these factors and its industrial development has helped Indonesia to receive the collective recognition from the World Bank in 1993, together with eight other East Asian economies - namely Japan, Hong Kong, Taiwan, China, Republic of Korea, Singapore, Thailand, and Malaysia - as a group of countries that had achieved an outstanding record of economic growth and development: "The East Asian Miracle."[41]

The export oriented industrialisation of Indonesia has intensified the integration of the Indonesian economy with other countries, including with Australia. Indonesian economic development and its subsequent achievements provide and enhance opportunities for Australia in terms of both a market for merchandising exports and an opportunity for profitable private investment. As a matter of fact, the industrialisation of Indonesia has been part of the whole process occurring in the Southeast Asian region, upgrading these countries' level of economic development, which provide plenty of commercial opportunities for Australia.[42] As noted by Flynmore and Hill, industrialisation in Southeast Asia has fabricated the level of development relative to Australia and "produced complementaritics that offer

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[40] Hal Hill, "Manufacturing Industry," in Anne Booth, ed., *The Oil Boom and After, Indonesian Economic Policy and Performance in the Soeharto Era,* Singapore, Oxford University Press, 1992, p. 249.

[41] The World Bank, *The East Asian Miracle, Economic Growth and Public Policy,* New York, Oxford University Press, 1993.

[42] East Asia Analytical Unit, Department of Foreign Affairs and Trade & Austrade, *Australia's Business Challenge, South-East Asia in the 1990s,* Canberra, AGPS, 1992.

opportunities for high-value Australian manufactures and services as well as the raw materials to fuel the industrialisation."[43]

The second factor that has contributed significantly to the increasing integration of the bilateral economic relationship between Indonesia and Australia has been the deregulation of Australian economy, which has been a major response to a long economic crisis Australia has experienced since the 1960s. In terms of living standard, for example, Australia had constantly fallen compared to other countries in the OECD. Starting from around fifth in early 1960s, Australia's living standard dropped to tenth in early 1970s and down to eleventh in 1991 among the OECD countries. This decreasing went in tandem with Australia's average purchasing power and the continuing slow down of economic growth; Australia's average purchasing power was sixteenth in 1993, and the average economic growth in the 1980s was the second worst within the OECD group.[44] The post 1945 policy of protected industrialisation constantly adopted by consecutive Australian governments was one main reason.[45]

This situation, and a further financial deregulation adopted by most OECD countries, left the Australian government without an alternative but to deregulate economy as a sole path to handle long and chronic economic problems.[46] This has been a dominant issue in Australian politics particularly since the Hawke-led Labor

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[43] Russell Flynmore and Hal Hill, "Overview," *ibid,* p. 27.

[44] Owen Hughes, "Economic Policy," in Andrew Parkin, John Summers, Dennis Woodward, eds., *Government, Politics, Power and Policy in Australia,* 5th ed., Melbourne, Longman Cheshire, 1994, p. 353-5.

[45] Bob Catley, *Globalising Australian Capitalism,* Melbourne, Cambridge University Press, 1996, chapter three, pp. 53-64.

[46] Hugh V. Emy and Owen E. Hughes, *Australian Politics: Realities in Conflict,* 2nd ed., Melbourne, Macmillan, 1991, pp. 10-15.

government assumed power in March 1983. The dominance of the issue has become more obvious when all Australian major political parties (the Australian Labor Party, the Liberal Party, National Party, and the Australian Democrats), albeit initially with a different enthusiasm, have taken it as a major political debate within the party. There has been a considerable consensus within these parties that in order to revive the Australian economy the government urgently needs to accept a free-trade regime and therefore economic deregulation as the engine of it should be implemented. This consensus has been achieved after the right wing successfully dominated the ALP, while within the Liberal Party the dry faction tended to reduce the influence of the moderate group. The National Party, similarly, has accepted the need to dismantle the rural subsidy system, one of their main traditional policy planks, following the general practice that has taken place elsewhere under the free market climate. In addition, the Australian Democrats has moved from their sole concern of green issues to a broader interest, and has enjoyed being a significant party that is able to contribute to other major issues.[47]

As an immediate consequence of the deregulation policy, there has been a considerable improvement in the government relationship with the business sector. The government has realise that it is the business sector that in fact plays the main role in deregulating the Australian economy. A partnership has emerged and the government has started to encouraged the business sector to invest in uncompetitive public sector often by privatising assets.[48] However, the most substantial aspect of this deregulation policy has been the opening up of Australian economy to the world

[47] Bob Catley, *op. cit.*, chapter 4.
[48] *Ibid,* chapters 5 and 6.

market by restructuring the Australian industrial sector, implementing financial deregulation by floating the dollar and lifting controls on foreign exchange, while at the same time allow foreign banks to operate in the Australian domestic market. All these were aimed at making the Australian economy internationally competitive. Although the deregulation has brought some less savoury implications particularly the increasing unemployment as the result of increasing competition within industrial sectors, thc Australian economy has been more competitive after it opened to the world market.[49]

Despite its effect domestically, the Australian economic deregulation has appeared to have effected too in the way Australia has given new priorities in foreign policy. As was revealed in chapter four, the economic challenge that Australia faced in the early 1980s, together with shifting balance of power from the one that was bipolar to the one that was more fluid with disparate economic centres, has progressively placed its economy at the forefront of the substance of its foreign policy and has given priority to the Asia Pacific region. Indeed, it has been during this time that Australia's overall trade with Asia has increased rapidly, while that with Europe, Australia's traditional trade partner, has been decreased steadily. By 1990-91, for example, Australia's exports to North Asian countries increased by 13.5 per cent and was to reach A$17.53 billion, while exports to South East Asia was A$9.94 billion an increased by 15 per cent from previous year. During the same period, in contrast, Australia's exports to European countries decreased by three per cent in total.[50] Since 1992, Australian engagement with the Asia-Pacific region has become so immense

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[49] *Ibid,* chapter 7.

[50] Robin Layton, "Australia as a Republic," *Flinders Journal of Politics and History,* Vol. 7, September 1993, p. 3.

which has been particularly demonstrated by Australia's involvement with APEC during Paul Keating's leadership. In 1994, a plan was made to progressively increase the budget for the Department of Foreign Affairs and Trade (DFAT) by 45 per cent, and it was to reach A$1.2 billion within four years. All this was mainly aimed at expanding eighteen and established four new missions within the Asia-Pacific region which undoubtedly indicated a clear and fundamental revision of foreign policy orientation.[51] In short, the deregulation of the Australian economy has also expanded and intensified Australia's involvement with the global market, in which Australia has given more priority to the Asia-Pacific region.

It is within this circumstance that the Australian and Indonesian economies interpenetration has been increasing. The deregulation of the Australian economy has made its industrial sectors more competitive and more 'aggressive' in looking for a new foreign markets. The climate it created has also encouraged Australia's investment to venture into the new market opportunities becoming available in Indonesia. It has been revealed in the previous part of this chapter that Australian exports to and investments in Indonesia since 1991 have increased rapidly. All this, no doubt, has been made possible by the increasing competitiveness resulting from the continued economic deregulation adopted by Australia since 1983.

Indonesia, like Australia, has also pursued a remarkable economic liberalisation by announcing various decisions and policies of de-regulation which cover a broad area of economic sectors: trade, investment, tourism, shipping, banking. One source has, indeed, noted that between 1983-91 there were more than fifty such

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[51] Cameron Stewart, "Time to Invest in Diplomacy," *The Australian*, 4 February 1994, p. 2.

kinds of decisions.[52] However, there have been three areas of that deregulation that has been regarded as important to the structure of overall Indonesian economic development: banking and financial sector; trade tariffs; and investment.

In the banking and financial sectors, the deregulation process began in June 1993 when the government opened opportunities for state banks to be more competitive by permitting them to decide their own interest rate. Previously, this was done under the guidelines of the central bank. This was further extended by another policy in October 1988. The government further liberalised the financial sector by allowing the establishment of new banks including expanding the branches.

Furthermore, in the areas of trade and tariffs, deregulation began in 1985 when the President produced an instruction no. 4/1985 stating the shifting of customs responsibility from the Directorate General of Customs and Excise to a Swiss-based international inspection company. It was believed that the shift was aimed particularly at increasing efficiency and reducing the corruption which it was often alleged had previously happened within the sector. Another deregulation policy was released in May 1986 when the government decided to allow exporters of manufactured products to directly import goods they need for production, a mechanism which had previously to proceed through the holders of import licences. The May package was soon followed by October deregulation; the government replaced non-tariff restrictions on the import of a wide range of commodities by a tariff. In November 1988, the reduction of non-tariff barriers covering trade, shipping, industries and agriculture continued and expanded. The government dismantled its monopoly on the importing

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[52] Buchari Effendi, "Indonesia-Australia Economic Relations," in H. Da Costa, ed., *Australian Aid to Indonesia,* Annual Indonesian Lectures Series No: 16, Centre of Southeast Asian Studies, Monash University.

of plastics. In June 1989 another package of deregulation was delivered when the government introduced various policies, such as merger, slashing operations, and selling shares in the stock market, to improve state-owned enterprises. The state monopoly was further alleviated in July 1992 when the government decided to dismantle its monopoly on steel imports, which was previously a privilege given to PT Krakatau Steel, one of the most protected state-owned companies. In May 1995 another tariff reductions was introduced and indeed it included the plan to make a further reduction in certain tariffs.

In the area of investment, moreover, deregulation begun in December 1988 when the government decided to open Indonesia's capital market toward foreign investors and opened other opportunities in the financial sectors. In April 1992 the investment sector was further liberalised. The government permitted foreign investors to own shares up to 100 per cent without Indonesian partners for up to five years.[53]

Unquestionably, this has been a process of very considerable economic liberalisation, given the previous protected characteristic of Indonesian economy. The Indonesian government has deregulated its economy following the sharp fall of Indonesia's terms of trade, resulting from the decline of oil price in 1982 and the even steeper decline in 1986, and the steep depreciation of the US dollar in 1985.[54] It was made even worst because Indonesia was not able to immediately compensate the decline of oil exports by non-oil exports. Despite the strong influence of the

[53] I have mainly adopted these deregulation policies from Richard Robison and Vedi R. Hadiz, "Indonesian Economic Policy in the 1990s," *Canadian Journal of Development Studies,* Special issue on Indonesia, 1993, pp. 21-2; and Hadi Soesastro, "Tantangan Eksternal Ekonomi Indonesia," in G. Hanafi Sofyan, ed., *Indonesia Dalam Transisi,* Canberra and Jakarta, Halmahera Foundation, 1995, pp. 143-4.

[54] Thee Kian Wee, "Economic Reform and Deregulation in Indonesia," *The Indonesian Quarterly,* Vol. 23 no. 2, 1995, pp. 138-48.

international market, the government realised that a protected and non-competitive macro-economic policy was another factor to blame for Indonesia's high-cost economy. It was within this situation that economic deregulation has been mainly aimed at restoring a stable macro-economic policy, lifting Indonesia from its dependence on oil, increasing industrial efficiency to reduce the burden of a high-cost economy, and forcing the private sector to take a greater part in managing the national economy.[55] In the financial sector, particularly, deregulation has been aimed at moving towards a predominantly market based financial system, providing better protection and service to the public for them to be able to benefit from the new financial system, and building a financial system which would able to support a stable and healthy economic growth.[56]

This economic deregulation succeed when the Indonesian economy began to recover in 1987. Its annual growth was 6.9 per cent between 1987-91. This was the average growth rate Indonesia had before the collapse of the oil price in 1982. However, the economic growth of post 1987 has been mainly achieved with a major contribution of non-oil sectors. In terms of exports in industrial manufactures, the Indonesian economy has become more internationally competitive which has been supported by a strong growth in the private sector.[57] The Indonesian economy has been more efficient after the introduction of financial and investment deregulation.[58]

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[55] *Ibid,* p. 138; Richard Robison and Vedi R. Hadiz, *op. cit.*, pp. 20-1.

[56] Ali Wardhana, "Financial Reform; Achievements, Problems, and Prospects," in Ross H. McLeod, ed., *Indonesia Assessment 1994, Finance as a Key Sector in Indonesia's Development,* Singapore, ISEAS and Canberra, RSPAS, ANU, 1994, p. 80.

[57] Hal Hill, "The Economy," in Hal Hill, ed., *Indonesia's New Order, The Dynamics of Socio-Economic Transformation,* St. Leonards, New South Wales, Allen & Unwin, 1994, p. 63.

[58] Miranda S. Goeltom, *Indonesia's Financial Liberalization, an Empirical Analysis of 1981-88 Panel Data,* Singapore, ISEAS, 1995.

Obviously, it has been under these circumstances that Australia's and Indonesia's economic interests intercept. The reasons triggering both governments to adopt economic deregulation are similar; both suffered a parallel economic decline resulted from the more globalised world economy. The aims of the economic deregulation, therefore, are similar too; both governments wanted to achieve a more stable macro-economic policy which has a capacity to compete in a new global economy. The globalisation of the world economy opens more economic convergence between nations, and more economic opportunities are available for countries willing to work together. The globalisation also creates the interdependence of economic utilities, which for Australia and Indonesia is supported by geographic proximity. As a result, the economic interaction between both countries is inevitable.

Despite the above factors, however, the leadership role is also important. Chapter six has revealed how the government of Australia and Indonesia had passionately restored the relationship after the saga over the Jenkins article. They have been committed to an improvement in the bilateral relationship, which has been proven by the signing of the new framework of relationship in 1989. Chapter six has also revealed how the spirit of the new framework has demonstrated a strong commitment of both governments to bring in a new discourse of argument in managing the bilateral relationship; common perception and converging interests in various areas, particularly in the economic filed, could be a chief factor for stabilising the future bilateral relationship. Under the diplomacy of Soeharto and Keating, the importance of the leadership factor was obvious. Both deliberately have encouraged two countries to have a closer economic relationship. The establishment of the

Australia-Indonesia Ministerial Forum, which included most ministers with economic portfolios, was a clear demonstration of how both governments wanted to make economic cooperation more organised and focused. Gareth Evans, the then Minister for Foreign Affairs, explained the main aim of the ministerial forum as a medium through which Australia would have an opportunity to make the bilateral relationship more concrete particularly in the areas of economic cooperation. The statement was agreed by the Indonesian Minister for State Secretary, Moerdiono.[59] Given the increasing integration of the Australian and Indonesian economies, the roles played by both governments have been successful. In short, the increasing integration of the countries' economies has been underpinned by Indonesia's increasing industrialisation, both countries' economic deregulation, and the globalisation of the world economy. Both governments are firmly behind this trend of increasing economic interpenetration.

Concluding Remarks

There is no doubt that the increasing interpenetration of the Indonesian and Australian economies has been beneficial for both sides, although there are still some minor complains. The Indonesian government, for example, has been a bit disappointed in the slow increase of Australian investment entering Indonesia. The Indonesian government argues that this investment growth has not been able to match the rapid increase of Australian exports to Indonesia.[60] Obviously, Indonesia would be pleased if its trade deficit with Australia can be compensated by more Australian

[59] *Tempo*, 21 November 1992.

[60] Florence Chong, "Indonesia remains a difficult market," *The Australian*, 18 September 1996, p. 43.

investments entering Indonesian market. Equally, there are still other complaints on the Australian side, regarding issues such as lack of a stable and predictable legal environment, lack of transparency on policies being made, the legal system, administrative red tape, and inadequate infrastructure, which have often made Australian investors reluctant to invest in Indonesia.[61] All these are challenges that need to be improved, but the signs have indicated the prospective possibilities for the future economic relationship of the two neighbour countries.

However, a further interesting issue to be analysed is the political significance of this increasing economic interpenetration to the overall bilateral relationship. For one thing, it obviously meets the governments' hopes and plans that have been included in the new framework of relationship, signed in 1989. Chapter six has revealed that the increasing diversification of the bilateral trade and investment have actually been one of the chief objectives of the 1989 agreement. Gareth Evans, the then Minister for Foreign Affairs and Trade, stated clearly his intention to broaden and deepen areas of cooperation in trade and investment during his first visit to Indonesia in October 1988,[62] a view with which Ali Alatas, Evans' counterpart, agreed to.[63] During Paul Keating's leadership this was among his highest priorities.[64] The increasing economic interpenetration, nevertheless, has given an indication of

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[61] Bruce Johnston, "Legal issues in Australia-Indonesia cooperation," in Colin Brown, ed., *op. cit.*, pp. 89-109; and see also Wayne Adams, "Asia's infrastructure needs fuel thirst for investment," *The Australian,* 19 December 1996, p. 28.

[62] See for example Keith Scott, "Trade with Indonesia outranks human rights," *Canberra Times,* 29 October 1988, p. 11.

[63] Ali Alatas, "Some Thought on Indonesian-Australian Relations," *Jurnal Luar Negeri,* No. 12, April 1989.

[64] Paul Keating, "Australia and Indonesia," in Mark Ryan, ed., *Advancing Australia, The Speeches of Paul Keating, Prime Minister,* Sydney, Big Picture, 1995, pp. 201-6.

success, though this has not yet reached the full potential economic capability both sides have.

Another interesting question to follow is whether this economic success would be automatically able to ease the political difficulties often faced by both governments. One perspective, revealed in chapter two, has argued strongly to support this proposition. It has been argued that the lack of strong economic ties has actually been the root cause of the continuing eruption of political disputes between the two countries. This has been described as the relationship "lacking ballast" or a deeply rooted system of relations which ensures that problems in one single area - such as media criticisms - will not overwhelm all the other dimensions of the partnership. The proponents of this perspective have been of the view that the lack of strong and economic ties have made both governments feel economically less useful to each other. Consequently, the political disputes emerge, both sides have paid less attention to economic considerations to immediately stop possible further damage to the bilateral political relationship. The reinforcement of economic ties, therefore, will lessen the political disputes since both sides will have more concern for the mutual economic risk should political disputes arise.

Hal Hill, one advocate of the perspective, points to the fact of how the present importance of Japan's economy to Indonesia and Australia has significantly effected the way both countries managed to improve their bilateral relationship with Japan. In the past, Australia and Indonesia had suspicions and expressed mistrust of Japan which resulted from the latter's role in colonising Indonesia and the general role it displayed during the Pacific War. However, the situation has changed and improved

considerably with the rise of Japan to the position of both countries' main trading partner.[65]

It is obviously true that a strong economic relationship could be a factor that is able to further reinforce a closer relationship, particularly for the long term of mutual economic and political interests. Certainly this is with the assumption that the current trend of increasing economic cooperation would continue to develop, and alongside that an increase too in the balance of economic benefits that both sides can absorb. Conversely, it is equally true that a stable political relationship would assist a climate conducive for building and maintaining a better economic relationship between Australia and Indonesia. The more the current increasing economic interpenetration provides balanced benefits to both sides, the more likely it would guarantee the achievement of long term political stability in the Australia-Indonesia relationship.

Pessimism, however, continues to prevail on the question of whether economic cooperation would guarantee the stability of the political relationship. In fact, it is the private sectors, be it as companies or individuals, and not solely the governments of both sides which would determine the extent to which the increasing economic interpenetration would evolve. Together with the strong development of the international sectors of their economies and markets within the more globalised world economy, supported by considerable deregulation economic policies taking place in Australia and Indonesia, the role of private sectors will likely be greater in the future. Consequently, it is not impossible that the private sectors would be dominant and able to complement the role of the states. Under this scenario, there might be less

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[65] Hal Hill, "Economic Relations," in David Anderson, ed., *Australia and Indonesia, a Partnership in the Making*, Pacific Security Research Institute, p. 16.

correlation between economic and political relationship; the relationship at the elite level might be unstable but the economic relationship will be working without disruption.

This trend for the economic relationship to be not disrupted by political disputes seemed to have developed in Australian-Indonesian relations between 1990-96. During that period, there were incidents such as the Dilli Massacre, the burning of the Indonesian flag, and the Mantiri affair, that created political difficulties at the elite level. Although there were moments when both sides were having difficulties in accommodating the different views on how to approach the issue, as revealed in the cases studied in chapter six, the trade and investment sectors were running almost without disruption. It was during this period, as revealed in the previous part of this chapter, that many indicators of economic cooperation between the two countries have shown the increasing trend. Indeed, one study has discovered and concluded that this has been the case in Australia-Indonesia relations particularly during Keating's leadership.[66]

However, the positive side of letting the private sector take the leading and dominant role is also in terms of preventive diplomacy. Conflict at the elites level could happen unpredictably on the bases of the different cultural and political systems of Australia and Indonesia. When the private sector's role is strong, the possibility of political conflicts easily creeping and spreading to other areas would be lessened. In other words, both countries should prepare to shield themselves and be ready to avoid

[66] Okta Fitriani, "Pengaruh Dinamika Hubungan Politik Australia dan Indonesia terhadap Investasi Langsung Australia di Indonesia pada masa Kepemimpinan Paul Keating," Thesis S1 (Honour equivalent) submitted to the Department of International Relations, Faculty of Political and Social Sciences, Airlangga University, 1995/96.

trifles from damaging the relationship. Equally, they should be also ready to prevent small and sometimes 'silly' issues from being able to ruin the whole relationship. In short, the whole relationship is a matter of cooperative management and the development of ballast. The differences between two countries, particularly ones of such different complexions, are inherent in international relations and are always capable of deteriorating unpredictably, but the most important point is how to anticipate such eruptions and how to manage them when they occur. Within these parameters, obviously, the greater the integration and economic cooperation that is developed between Australia and Indonesia, the more likely a stable political relationship is to develop. This is, in turn, an important strategic consideration for both states.

CHAPTER EIGHT

DEFENCE COOPERATION

The signing of a security agreement between Australia and Indonesia in December 1995 indicated the increased significance of defence as one pillar of Australian-Indonesian relations. This chapter explores and analyses the countries' defence cooperation in the period between 1986 and 1996, and begins with a brief review of this cooperation prior to 1986. Given the symbolic importance of the 1995 security agreement for the bilateral relationship, and the secrecy surrounding its negotiation, the agreement and the context of its signing will be analysed closely.

Australian-Indonesian defence cooperation has very much reflected the periods of turbulence and stability within the general political relationship between the two countries. Chapter one revealed how cultural ignorance stirred political disputes between Indonesia and Australia during the 1950s and 1960s. Since such disputes occurred in the shadow of the Cold War, it was not surprising that the countries' orientations in defence and foreign policies grew in different directions. On the one hand, Australia's "splendid isolation" in the south, far from its mother country, the United Kingdom (UK), and circled by many different nations, created a constant

feeling of insecurity, which in turn fuelled a perception of threat.[1] The decline in the influence of the UK, and rapid shift in the international balance of power following World War II, placed the United States of America (US) in the ascendancy. Australia's strategic planners, particularly nervous about the rapid growth of communism, turned to the US as a global super power to meet its defence and security needs.[2] The Australia-US alliance was confirmed with the formation of ANZUS in 1951 and reinforced through Australia's involvement in supporting the US in the Korean and Vietnam Wars. On the other hand, under President Soekarno's guidance, Indonesia moved closer ideologically to the Eastern bloc, particularly to the former USSR and then China. Given these circumstances, there was no room for defence cooperation between Australia and Indonesia throughout the 1950s and 1960s.

The situation started to change, however, after the Soeharto regime came to power following the traumatic failed communist coup in 1965. Australia's support for Indonesia's new government was soon evident when the former employed the "politics of aid" to achieve foreign policy objectives. Australia was of the view that by supporting economic growth of countries in the region, regional stability would be enhanced which in turn would guarantee greater security for Australia. As Australia increased aid to Indonesia, the relationship indeed got closer. As revealed in chapter two, the increase of Australia's economic aid to Indonesia was followed by a general broadening of the relationship, including in the area of defence. Australia and

[1] Alan Dupont, *Australia's Threat Perceptions: A Search for Security,* Canberra Papers on Strategic and Defence No. 82, Canberra, Strategic and Defence Studies Centre, Research School of Pacific Studies, the Australian National University, 1991, .

[2] R. Catley, "Australia and the Great Powers," *Australian Outlook,* Vol. 37 no. 3, December 1983, pp. 143-49.

Indonesia commenced formal defence cooperation in 1969. Under the new arrangement, Australia was committed to providing opportunities for Indonesian defence officers to be trained in Australia's training facilities. An arrangement for sharing information between the Indonesian intelligence body (*Badan Koordinasi Inteligent Nasional*- BAKIN) and its counterpart in Australia soon followed in 1971.[3]

This early defence cooperation was upgraded when Whitlam's Labor government came to power in 1972 and gave priority to Australia's relationship with Indonesia. Whitlam made considerable efforts to develop and maintain a close relationship with Soeharto. Australia and Indonesia signed a new defence cooperation agreement, known as the Defence Cooperation Program (DCP). It was the first formal framework for bilateral defence activities, with the principal objective of assisting the development of Indonesia's defence capabilities.[4] Australia's first defence aid to Indonesia was a three year aid program worth around $20 million, announced in 1971.[5] In the fiscal year 1972/73 it was worth $3,763,336. It then was increased to $5,107,972 in 1973/4 and reached $5,107,972 in the fiscal year 1974/75. Furthermore, the number of Indonesian defence officers training in Australia increased. Beginning with 91 personnel in 1971, the number increased to 240 a year later, and then was steady at 164 in 1973, 141 in 1974, and 126 personnel in 1975. During this period, as revealed in chapter two, Indonesia purchased various items of defence equipment from Australia, all of which proceeded with under the guidelines of

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[3] Andrew Mills, "Australian-Indonesian Relations; A Study of the Timor Sea Maritime Delimitation," Honours Thesis, Politics Department, the University of Adelaide, 1986, p. 45.

[4] Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's Relations With Indonesia,* Canberra, AGPS, 1993, p. 69.

[5] Senate Standing Committee on Foreign Affairs and Defence, *Australia's Defence Cooperation With its Neighbours in the Asian-Pacific Region,* Canberra, AGPS, 1984, p. 42.

DCP. Nonetheless, all these activities indicated an increased collaboration between Australia and Indonesia within the area of defence.

Over the years, this collaboration has been influenced by different factors. The nature and the intensity of it has varied along with the changing requirements and disagreements occurred at the political level.[6] As was evident in chapter two, criticism of Australia's defence aid to Indonesia was widespread, came from a broad spectrum of political opinion, and was continuous. The perception that Indonesia was a military threat to Australia still prevailed among many Australians. It is a matter of record that among Australia's World War II veterans, there continues to be some mistrust towards Indonesia.[7] Indeed, even after the Cold War, many Australians still unfortunately believed that Indonesia was a potential threat.[8] A survey by academics from the Australian National University, the University of New South Wales, and the University of Queensland reported that 76 per cent of Members of Parliament (MP) in the Howard Coalition government still feared Indonesia as a security risk, while the same feeling was expressed by 36 per cent within the opposition (Labor) MPs.[9] This was worsened because lack of parallel personal and institutional links in the defence

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[6] A. Hasnan Habib, "Australia-Indonesia Relations: The Politico-Defence Dimension," in Desmond Ball and Helen Wilson, eds., *Strange Neighbours: The Australia-Indonesia Relationship,* Sydney, Allen & Unwin, 1991.

[7] Yusuf Wanandi, "The Australia-Indonesia Security Relationship," in Desmond Ball and David Horner, eds., *Strategic Studies In A Changing World: Global, Regional and Australian Perspectives,* Canberra, Strategic and Defence Studies Centre, Research School of Pacific Studies, the Australian National University, 1992, p. 327.

[8] See for examples Rob Goodfellow, "Ignorant and hostile: Australian perceptions of Indonesia," *Inside Indonesia,* No. 36, September 1993, pp. 4-6; and Alison Cottrell and Toni Makkai, "Australian Perceptions of Indonesia as a Threat," *Asian Studies Review,* Vol. 19 no. 2, November 1995, pp. 59-71.

[9] Leisa Scott, "PM must calm fear of Jakarta, says envoy," *The Australian,* 28 November 1996.

field. Consequently, this early defence cooperation did not help much in terms of changing threat perceptions even within the ADF.

When Indonesia took over East Timor in 1975, criticisms mounted over Australia's defence aid and cooperation with Indonesia. The deaths of five Australian journalists in East Timor, believed by many Australian journalists to have been killed by Indonesian troops, not only heightened but widened these criticisms. Reactions to the deaths came not just from the public and journalists, but also from within the Australian Defence Force (ADF). The questions raised centered around the legality of the Indonesian decision to take over East Timor and other related human rights issues.

Indonesia, particularly the Indonesian military (ABRI), did not take Australia's reaction kindly. ABRI felt that Australia's reactions were a little bit 'unfair'. The Indonesian military maintained that their efforts to end the civil war in East Timor, which ABRI believed a communist Fretilin might win, were not undertaken solely to serve Indonesia's security interest. Their view was that Indonesian military action in East Timor would ensure the stability of the region, and would directly benefit Australia regional security.[10] The accusations made by the Australian mass media about human rights violations in East Timor, as well as the harsh comments on the role of ABRI in taking over the province, and the general question of Indonesian democracy, sustained ABRI's irritation. Predictably, in these circumstances, defence cooperative activities under the management of DCP

[10] Yusuf Wanandi, *loc. cit.*

continued but were not undertaken in an atmosphere of comprehensive mutual understanding.

Australia's recognition of East Timor's incorporation into Indonesia in 1979 helped improve the countries relationship, particularly at the government level. A series of joint maritime exercises in the Java Sea was carried out. Named New Horizon 80, these biennial exercises which involved the Royal Australian Navy (RAN) and its Indonesian counterpart, commenced in 1980.[11] However, Australia's media continued to report extensively about sensitive political disturbances in many areas in Indonesia. These media activities got a hostile reception within Indonesia and gave offence to Indonesian officers, particularly causing resentment within ABRI. In response, Indonesia ended two decades of the tradition of direct coverage by the ABC from within Indonesia by expelling its last journalist in July 1980. It seemed that ABRI was instrumental in the decision. The late Ali Moertopo, a retired army general who was heavily involved in Indonesia's decision to take over East Timor, and who was then the Minister for Information argued strongly in defence of the decision to end ABC direct coverage, saying that the ABC had jeopardised Indonesia's reputation within the international community.[12] This was one of a low point in Australian-Indonesian relations and it was some time before it was able to move on. In the defence field, although Indonesia still sent officers to train in Australia, the numbers were down in comparison to those sent in the early seventies.

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[11] Desmond Ball, "Indonesia and Australia: Strange Neighbours or Partners in Regional Resilience," in Hadi Soesastro and Tim McDonald, eds., *Indonesia-Australia Relations: Diverse Cultures, Converging Interests,* Jakarta, CSIS, 1995, p. 113.

[12] *Tempo,* 25 April 1992, p. 24, quoted in Yopie Hidayat, "Facing the New Era: the Role of the Media in Indonesia-Australia Relations," in *ibid,* pp. 289-90.

As a matter of fact, feelings of anger and resentment among Australian journalists towards the Indonesian government over the deaths of five of their colleagues in East Timor ran high. The ban on the ABC, understandably, heightened this resentment and indeed drove them to report more closely and critically on Indonesia, particularly on issues which, according to the Indonesian government, discredited its reputation internationally. ABRI's political role often became the target of Australia's media reports. As a result, there were serious grievances within ABRI concerning Australia, particularly over the way in which the government handled media reports.

These grievances came to a head over the Jenkins affair in 1986. As revealed in chapter five, ABRI reacted angrily to Jenkins' article and harsh comments were made by Indonesian officers. The Commander-in-Chief of the Indonesian Armed Forces, then General Benni Moerdani, described the article as a smear campaign and an insult to the Head of State. It was perceived as an effort to interfere in Indonesian internal affairs. Indeed, Moerdani identified the article as being similar to the Dutch attack on Yogyakarta in 1948, an action which provoked serious consideration of retaliation.[13] Apparently, as discussed in chapter five, ABRI took a tough position on the issue, sometimes undermining the moderate positions taken by the Foreign Affairs Department. The Jenkins affair was an opportunity for ABRI to display its displeasure, particularly its grievances regarding Australia's treatment of Indonesia in its news media. General Moerdani was sufficiently angered to express the view that

[13] Yang Razali Kassim, "Row Over Sydney Morning Herald Articles—Murdani Blasts Aussie paper," *The Strait Times*, 22 April 1986.

Australia's defence aid was not very important, and indicated indeed that Indonesia would reject any future defence cooperation.[14]

In the aftermath of the Jenkins affair, as described in chapter five, ABRI maintained its uncompromising position towards Australia. This resulted in a general decline in the bilateral relationship, particularly in the area of defence cooperation. The situation reached its lowest ebb in 1988 when Indonesia requested the cancellation of the DCP, the framework of defence cooperation established in 1972 which had guided defence activities between both countries. This virtually ended Australia's defence aid to Indonesia since most of this aid was delivered through programs coordinated under DCP. There is little doubt that the cancellation created a period of uncertainty between both nations regarding bilateral defence cooperation.

A Turning Point

The uncertainty created by the cancellation of the DCP did not last long. At the time it was announced, Australia and Indonesia had just reached the stage where two New Foreign Ministers, Ali Alatas and Gareth Evans were exploring ways in which the bilateral relationship might be managed in a more productive and constructive manner. The more personal approach, which Evans and Alatas initiated was also adopted by those in the defence field.

In November 1988, the Chief of the Australian Defence Force, General Peter Gration, flew to Indonesia; his visit aimed at strengthening closer personal relationships between defence officers. It was a strategy based on the belief that

[14] Leigh Mackay, "Indons threaten to reject aid," *The Age*, 22 April 1986; and Michael Byrnes, "Jakarta Dumps Australia Military Deals," *Australian Financial Review*, 22 April 1986.

strong personal relationships would make a solid foundation for any future defence cooperation. Gration's visit was successful. He was able to build a good personal rapport with his counterpart, the Commander-in-Chief of the Indonesian Armed Forces, General Try Soetrisno. This friendship is believed to be "an ingredient in the burgeoning goodwill between the two military forces."[15] It initiated further reciprocal visits by high-level defence officers of both sides, ranging from ministers to lower level rank officers.

In July 1989, General Try Soetrisno, accompanied by the Chief of Indonesian Naval Staff, Vice Admiral Arifin, visited Australia. During the visit, General Soetrisno held discussions with his Australian counterpart, General Peter Gration and the Australian Minister for Defence on issues around regional defence and security, particularly those related to bilateral defence cooperation. At the end of the discussions, General Soetrisno and General Gration issued a joint statement in which the generals:

> Agreed on the importance of mutually beneficial relations between the two countries in the defence field.
>
> Noted that Australia and Indonesia shared with other regional countries a primary concern for the maintenance of peace, stability and security in the region.
>
> Agreed that peace and stability objective could be effectively promoted by the concepts of Australian national defence self-reliance, Indonesian national resilience and by the development of co-operative defence activities between regional countries on an informal bilateral basis.
>
> Expressed the desire to improve the current level of bilateral defence activities, including senior level visits, military exercises, staff college exchanges and defence industry contacts.

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[15] Brigadier P. J. Greville (RL), "Living with Indonesia," *Asia-Pacific Defence Reporter*, Vol. 17 no. 9, March 1991, p. 37.

> Valued greater communication and contacts between defence personnel in Australia and Indonesia in order to establish a better understanding and overcome any misconceptions on both sides, and agreed to work towards that end.
>
> Agreed that the future defence relationship should be based on the recognition of our common strategic interests in the security and stability of this region.[16]

From this joint statement, there is little doubt that General Soetrisno's visit was not only strategically but also politically important as far as the defence relationship was concerned. The visit was a turning point for Australian-Indonesian relations in general, and defence cooperation in particular. It was the first visit by Indonesia's Commander-in-Chief of Armed Forces since the one last made by General Nasution back in 1962.[17] It was reported that General Soetrisno used every available opportunity during his visit to talk up and emphasise the positive aspects of both countries' relationship, particularly in the field of defence. Furthermore, the discussions also ended with agreements to undertake a range of jointly funded activities which emphasised practical cooperation of mutual benefit and the further development of personal and professional relationships. This included attendance at Staff Colleges, an significant range of logistic cooperation, maritime surveillance, naval exercises, and training in a wide variety of technical and military disciplines.[18] The visit of General Soetrisno and the agreement that he made with his Australian

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[16] Quoted in Herschel Hurst, "Indonesian relations improving," *Pacific Defence Reporter*, Vol. 16 no. 3, September 1989, p. 54.

[17] *Ibid.*

[18] Senate Standing Committee on Foreign Affairs and Defence, *op. cit.*, pp. 69-70.

counterpart ended the uncertain situation produced by the cancellation of the DCP a year before.

Another important aspect of the visit was the mutual realisation that the task of building a closer defence relationship required a more equal sharing of responsibility. The replacement of DCP, in which Australia was a donor of defence aid, by jointly funded military exercises is a clear indication that both sides were aware of the need for parallel responsibility. This approach had been taken up by Ali Alatas and Gareth Evans several months prior to General Soetrisno's visit. Moreover, as was the case with Alatas and Evans, the so-called building of close personal relationships had been taken up by those in the defence area, in the hope that it would lead to a more stable foundation for bilateral defence cooperation.

The agreement made during General Soetrisno's visit built closer defence ties in a number of ways. Its success can be gauged by two indicators: the numbers of reciprocal visits made by senior defence officers,[19] and the number of joint military exercises involving both countries. In February 1990, Vice Admiral Hudson, the Australian Chief of Naval Staff, visited Jakarta. With the aim of holding further talks with the Indonesian Naval Staff, Vice Admiral Arifin who had accompanied General Soetrisno to Australia previous year. A month later, General Peter Gration and his Vice Chief, Vice Admiral Alan Beamount visited Indonesia separately. In September that year, other visits to Indonesia were made separately by the Australian Chief of the General Staff, Lieutenant General John Coates, and the Land Commander Australia,

[19] Most of these reciprocal visits are quoted from Desmond Ball "Indonesia and Australia: Strange Neighbours or Partners in Regional Resilience," *op. cit.*, pp. 108-9.

Major General Murray Blake. A month later, Vice Admiral Soedibyo Rahardjo, then Chief of the General Staff of ABRI, visited Australia.

In 1991, two important visits were made by the Indonesian defence officers. In August, General Edi Soedrajat, then Indonesian Army Chief of Staff, visited Australia. It was a return visit to the one made by his Australian counterpart, General Coates, in the previous year. In November, once again General Try Soetrisno had a chance to visit Australia for "informal talks" with the Australian Minister for Defence and other senior defence personnel. The talks were said to be informal perhaps because they coincided with the Dili massacre in November 1991. During 1992 there was a pause in reciprocal visits, particularly at the high ranking level, however, the reasons for this are not clear. Two possible explanations might be the different perceptions among defence officers from both sides over the killings in Dili, East Timor, or that there was a deliberate "dumping down" policy employed by both sides to reduce or avoid public reaction in relation to the Dili incident.

In 1993, however, these reciprocal visits resumed. In September, General Edi Soedrajat, now the Indonesian Minister for Defence and Security, visited Australia, a trip which was acknowledged by his Australian counterpart as a milestone in the bilateral relationship between Australia and Indonesia because it indicated closer defence links. A year later, in April 1994, another visit to Australia was made by the Commander-in-Chief of ABRI, General Feisal Tanjung, for talks on common defence and security matters.[20] In August that year, Senator Robert Ray, the Australian Minister for Defence, accompanied by the Chief of the Australian Defence Force,

[20] *Ibid.*

General Alan Beamount, visited Jakarta. The visit was considered a success since both governments agreed to develop a joint venture project to produce weapons.[21] As well as the above visits, there were other lower level visits by both nations' defence officers. Overall, they indicated a sharp increase in the number of reciprocal visits since 1989.

The similar increase also occurred in other cooperative defence activities such as visits by staff at military colleges, officer student exchanges, and joint military exercises, particularly maritime exercises, surveillance in areas of mutual concern, and cooperation in mapping. Other activities included exercises involving the Indonesian Army Strategic Command and Australia's Land Command, and tactical air transport involving the RAAF and the Indonesian Air Force (AURI).[22] From 23 September to 19 October 1991, a maritime exercise with the code name New Horizon 6/ *Cakrawala Baru* took place. It was followed by a tactical air transport exercise in 1992.

In 1993, there were several joint military exercises involving both countries: a special forces exercise with the code name Night Mongoose, three maritime exercises with code the name Ausina 2-93, New Horizon 7, and Ausina 9-93 respectively, a maritime patrol exercise with the code name Ausina Patrolex 2/93, and an air transport seminar namely Ausina 93. These continued in 1994 with three more joint maritime exercises with the code name Ausina 3/94 from 30 August to 2 September, Ausina Patrolex 94-1 from 27 September to 4 October, and Ausina Patrolex 94-2 on 2 and 3 November, and two air exercises with the code name Rajawali/Ausindo 94

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[21] "Menhan Ray: Australia dan RI Patungan Produksi Senjata," *Kompas*, 8 August 1994; and "Australia seeks weapons joint venture with RI," *Jakarta Post*, 8 August 1994.

[22] Diplomatic Sources Jakarta, quoted in Ikrar Nusa Bhakti, "Facing the 21st Century: Trends in Australia's Relations with Indonesia," *Indonesian Quarterly*, Vol. 20 no. 2, 1992, p. 153.

from 14 to 21 September and Elang Ausindo from 9 to 14 November. One special forces exercise, code named Night Komodo, also took place in Indonesia in 1994. In 1995, the following took place: a special forces exercise (Night Komodo), a maritime exercise (Ausina 95-1), a land exercise (Indonex), and another exercises at the Shoalwater Bay training area involving the Indonesian army with the code name Swift Canopy '95. Two other joint military exercises between Australia and Indonesia also included other countries; Kangaroo '95 was a land, air and maritime exercise involving Australia, Indonesia, Malaysia, and Singapore; Kakadu 2 was a fleet concentration period involving ships from Australia, Indonesia, Malaysia, Singapore, Thailand, New Zealand, and Hong Kong.[23]

Accompanying the increase of joint military exercises has been the number of defence officers involved in student exchanges and attendance at military colleges. As discussed in chapter five, the Indonesian military in 1987, following the row over the David Jenkins' article in the previous year, announced that it would not take up the places offered at Australian Military Colleges for Indonesian defence personnel. This situation lasted for around two years until 1990 when Australia, through a statement made by General Peter Gration, indicated it was ready to increase the intake of Indonesian defence officers at Australian military colleges. It also agreed to explore what other opportunities might be available for Indonesian defence officers to be trained in Australia.[24] In 1991, Indonesia sent 17 defence officers to study in Australia and the number has risen sharply every year since. By 1994 there were more than 300

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[23] The list of these exercises is taken from Desmond Ball and Pauline Kerr, *Presumptive Engagement, Australia's Asia-Pacific Security Policy in the 1990s,* St. Leonards, New South Wales, Allen & Unwin, 1996, pp. 138-42.

[24] Desmond Ball, "Indonesia and Australia: Strange Neighbours or Partners in Regional Resilience," *op. cit.*, p. 112

Indonesian military officers visiting Australia for various defence activities including exercises, intelligence exchanges, courses at military colleges, and other training purposes.[25] In 1995-96 year there were 225 Indonesian defence officers training in Australia. This was a steep increase from the 5 personnel in 1990-91.[26]

All of the above data highlights the increasing closeness of defence cooperation between Australia and Indonesia, a development which strengthens the whole pattern of thc bilatcral relationship. It brings the two nations to a point where Australia has become Indonesia's most important partner with which Indonesia does most of its defence arrangements.[27] This more closely knit era of defence cooperation was confirmed in Australia's Defence White Paper of 1994 which spells that "the defence relationship with Indonesia is our [Australia's] most important in the region and a key element in Australia's approach to regional defence engagement."[28] Thus, Indonesia is a vital link in Australia's strategic security chain. Moreover, this was a considerable change when compared with the 1986 Dibb Report (preceding 1987 Defence White Paper) which suggested that despite Australia's need to encourage cooperation with Indonesia, it had also to recognise that because of its proximity with Australia, Indonesia "is the area from or through which a military threat to Australia could most easily be posed."[29] Despite this, however, the bilateral defence cooperation between Australia and Indonesia has been much improved, and was

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[25] Patrick Walters, "Indonesian Forces Expand ADF Links," *The Australian*, 22 March 1994.

[26] David Jenkins, "Australia Takes the Lead Training Indon Military," *The Sydney Morning Herald*, 18 May 1995.

[27] *Ibid.*

[28] *Defending Australia: Defence White Paper 1994*, Canberra, AGPS, 1994, p. 87.

[29] Paul Dibb, *Review of Australia's Defence Capabilities*, Report to the Minister for Defence, Canberra, AGPS, 1986, p. 48; and Department of Defence, *The Defence of Australia 1987*, Presented to Parliament by the Minister for Defence the Honourable Kim. C. Beazley, MP., Canberra, AGPS, 1987.

symbolised in December 1995 by the signing of a new security agreement. This agreement is analysed in the next part of this chapter.

Increasing cooperation is not simply a trend between Australia and Indonesia. It is also part of a more general trend towards regional cooperation within the Asia Pacific region which has been triggered by many factors, including the decline of the US presence in the region.[30] Some countries have feared that it would lead to an increase in tensions between nations in the Asia-Pacific area. Cooperation has been a vital element in allaying these fears, and much discussion has centred around the acquisition of more advanced weapons by various countries and the need to avoid a new arms race. Given that most of new weapons purchased and possessed by countries in the region have high strike capabilities, and include maritime attack aircraft, anti-ship missiles, and submarines, transparency in dialogue and other confidence building measures are necessary to avoid potentially disastrous misunderstanding. Cooperation is also needed to counter intrusion by other powers into the region. Fortunately, there is an increased understanding between countries in the region of their commitment to the 1982 convention of the Law of the Sea (UNCLOS), particularly regarding the status of the High Seas for peaceful purposes. Issues such as maritime regional surveillance, need to be handled on a regional basis, but very sensitively. To do this successfully, countries in the region need an institutional mechanism through which they may exchange views and work co-operatively.

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[30] Desmond Ball, "Indonesia and Australia: Strange Neighbours or Partners in Regional Resilience," *op. cit.*, pp. 102-4.

There are many benefits from defence cooperation. The most important is the promotion of trust and understanding while providing transparency of intention between all regional parties. This will allow professional openness, and access to other's views and opinions, knowledge which will potentially avoid suspicion and promote more understanding. Furthermore, regional cooperation allows for greater defence dialogue and provide a focus for intellectual study, in which network of military and strategic thinkers are able to work on issues such as regional maritime and airspace surveillance, a solid regional rescue network, environmental protection strategies, and multi-lateral arrangements for coping with natural disasters.[31]

In the case of Indonesia and Australia there seem to be more specific factors triggering increased defence cooperation. In terms of general defence outlooks, both nations are remarkably similar in that,

> both value the concept of 'national resilience' or self reliance;
> each aims for the capacity to defend itself without reliance on direct support from other powers;
> each seeks to maximise the contribution of wider national resources to defence, if necessary;
> without specific external threats, both are moving independently to develop relevant capabilities for a range of possible contingencies.[32]

These commonalities are elaborated more specifically in the 1994 Defence White Paper. Indonesia's value on self reliance, for example, is encapsulated in the well-known concept of the Total People's Defence and Security System (*Sistem*

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[31] Group Captain Gary Waters, "Regional Defence Co-operation," *Australian Defence Force Journal,* No. 109, November/December 1994, p. 41.

[32] Joint Standing Committee on Foreign Affairs, Defence and Trade, *op. cit.*, pp. 68-9.

Pertahanan Keamanan Rakyat Semesta/ Sishankamrata). The concept means that Indonesia's national resilience rests upon the involvement of all of the nation's potential and power in maintaining stability and defending the country. In terms of power projection and strategy, Indonesia employs a concept of layered security. Priority is given to the closest, most immediate layer, that is, domestic security, followed by consideration of sub-regional ASEAN, Southeast Asia, and other neighbouring regions.[33] This has been also the position that Australia has taken since the release of 1987 Defence White Paper. It was given more weight when Australia's Minister for Foreign Affairs and Trade, Senator Gareth Evans, released his Ministerial Statement entitled "Australia's Regional Security" on 6 December 1989, and which was elaborated in chapter four.[34]

These common views have caused strategic planners in both countries to make fairly similar assessments of the changing balance of power in the Asia Pacific region, a change occurred in the post Cold War period. Both countries have taken the view that the changed balance of power in the region has created uncertainty and opened opportunities for other powers to come in and upset regional stability. Both Australia and Indonesia are concerned with ensuring stability and closer regional co-operation is one way to achieve this. It is, as some commentators have indicated, almost inevitable. As Alan Beamount argued, when he was Chief of the Australian Defence Force,

> We [Australia] share with Indonesia a recognition that the more demanding strategic environment which we currently face requires

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[33] Indonesia, *The Policy of the State Defence and Security of the Republic of Indonesia,* Jakarta, 1995.

[34] Ministerial Statement by Senator, the Hon Gareth Evans QC, Minister for Foreign Affairs and Trade, 6 December 1989, *Australia's Regional Security,* Canberra, Management Information Processing, Department of Foreign Affairs and Trade, 1989.

> us to make greater efforts to shape that environment. We have no major conflicting strategic interests with Indonesia and there is great complementarity in our respective defence posture.[35]

This view is clearly not very different from statements that were once made by General Try Soetrisno, the Commander-in-Chief of Indonesian Armed Forces during his visit to Australia in 1989. Soetrisno expressed the opinion that "Australia and Indonesia have a common desire to achieve a peaceful and meaningful coexistence" because both "are destined to live in geographic proximity."[36] General Soetrisno repeated and stressed this in 1994 when he visited Australia as Vice President, noting that as close neighbours Australia and Indonesia "have no alternative" but to continue improving the quality of their relationship in every aspect.[37]

The intention to focus more closely on trade and investment as mentioned in the new framework of cooperation signed by both Foreign Ministers in March 1989, will not become reality if this is not supported by closer defence cooperation. Although this was not stated in the agreement, it was implied by provisions in the agreement that went to the intention to broaden the relationship and work together in areas of mutual interests and advantage. The defence and security fields are in fact areas where Australia and Indonesia have many converging interests.

The last factor triggering closer defence cooperation between Australia and Indonesia has been a general recognition that regional security is a key factor in

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[35] Alan Beaumont, "Australia-Indonesia defence cooperation: An Australian perspective," in Colin Brown, ed., *Indonesia, Dealing with a neighbour*, St. Leonards, New South Wales, Allen and Unwin, 1996, p. 49.

[36] Quoted in Brigadier P. J. Grevile (RL), *loc. cit.*

[37] His Excellency General Try Soetrisno, Vice President of the Republic of Indonesia, "Keynote Address," in *Journal of the Royal United Services Institute of Australia*, Vol. 15 no. 1, 1994, p. 11.

supporting and achieving other non-security objectives. Economic development and issues related has been central, as discussed in chapter three. Economic globalisation has implications for middle powers like Australia and Indonesia whose markets are so sensitive to fluctuations in the global market. An open and liberalised economy is essential and non-binding regional economic needs must be promoted if they are to remain strong. However, all this may only be achieved through building a sense of common purpose among countries in the region, at least as far as security is concerned.[38] Australia and Indonesia have been active in pursuing this through the ASEAN Regional Forum (AFR).[39]

The 1995 Security Agreement

The signing of the Australia-Indonesia Agreement on Maintaining Security on 18 December 1995 has been a most important development in the field of defence, but it also important in terms of the bilateral relationship. The agreement surprised many, not only in Australia and Indonesia, but also in other countries particularly in the region nearby. Much of the surprise stemmed from the secrecy surrounding its negotiation. It was unexpected because Indonesia has long been known as a country which rejects any kind of formal security agreement let alone defence pact. The principles of Indonesia's foreign policy, independent and active, supported by its strategic doctrine of Total People's Defence and Security System (*Sishankamrata)*

[38] For how this could be achieved by Australia and Indonesia in the maritime environment, see R. J. Sherwood, "The Australia-Indonesia Security Relationship; Confidence Building Measures in the Maritime Environment," *The Indonesian Quarterly,* Vol. 20 no. 2, 1992, pp. 168-82.

[39] For Australia's detail proposal see Gareth Evans and Paul Dibb, *Australian Paper on Practical Proposals for Security Cooperation in the Asia Pacific Region,* Canberra, Department of Foreign Affairs and Trade and Strategic and Defence Studies Centre, 1994.

and its historical policy of anti-imperialism and anti-colonialism have guided Indonesia away from defence pacts. Given that the countries' bilateral relationship has a long history of specific irritations in the political and defence fields, the signing of security agreement was something of a "bolt from the blue".

The idea of the agreement was first raised by Prime Minister Paul Keating in 1994 when his cabinet was reviewing Australia's 1994 Defence White Paper.[40] After receiving little reaction from his cabinet colleagues, Keating proposed the idea to President Soeharto during his visit to Indonesia in June 1994. Keating's argument was that it would bring the two countries closer together. He backed this up by saying that neither had territorial designs on the other, that both countries had a similar view of security needs in the post Cold-War era, and that a strong bilateral relationship was needed to support the existing regional cooperation of APEC and ARF. Without making any commitment, Soeharto agreed to appoint a representative for discussions. On the Australian side were General Peter Gration, former Chief of ADF, Mr. Allan Gyngell, senior adviser to Prime Minister Keating, and the Australian Ambassador to Indonesia, Mr. Allan Taylor. Indonesia was represented by Mr. Moerdiono, Ministerial Head of the State Secretariat. Only these figures had any detailed knowledge or information on the negotiation process. After the first meeting in September 1994, Australia proposed a draft agreement which was then discussed in subsequent meetings. When President Soeharto and Prime Minister Keating met in Jakarta in June 1995, they agreed to the draft proposal. A final draft was then agreed by both leaders when they met again in Osaka, Japan, during APEC's Summit

[40] This paragraph is a summary from Bob Lowry, *Australia-Indonesia Security Cooperation: For Better or Worse?* Working paper No. 299, Canberra, Strategic & Defence Studies Centre of Australian National University, 1996, pp. 8-9.

Meeting in November 1994. On 14 December 1995 the concluding of the agreement was publicly announced, and then on 18 December 1995, it was signed.

Basically, the security agreement comprises three main clauses which oblige Australia and Indonesia to;

> * consult at ministerial level on a regular basis about matters affecting their common security and to develop such cooperation as would benefit their own security and that of the region;
> * consult with each other in the case of adverse challenges to either party or to their common security interests and, if appropriate, to consider measures which might be taken either individually or jointly and in accordance with the processes of each Party;
> * promote, in accordance with policies and priorities of each, mutually beneficial cooperative activities in the security field in areas to be identified.[41]

The agreement indicates quite clearly that it is a framework, and a forum, where both parties will be able to discuss emerging issues which might potentially damage regional security. The fact that the agreement does not clearly associate the potentially damaging issues — it refers to adverse challenges— as military attack, means that it could cover other non-military issues that have the capacity to destabilise the region and threaten both countries' common interests. Within this context, security does not mean a state achieved only through defence cooperation, it includes more positive relations on other fronts. In relation to this Paul Keating argued that

> [It] ... it is not simply about external threats, it is about the whole environment of the region. It is about the foreign policy

[41] A complete copy of agreement is at the back of this chapter.

> and trade policies of the countries ... What we are saying here is that Australia and Indonesia have a coincidence of views and interests in the strategic outlook of the region.[42]

This is a typical suggestion which some scholars have consistently proposed as one option in managing both countries' bilateral relationship,[43] a suggestion which has been instrumental in shaping and formulating both countries' priorities in foreign and defence policies. Furthermore, as a framework which includes consultation as one of its primary obligations, the security agreement is not a defence pact, as has been argued by both the Indonesian and the Australian governments.[44]

However, it is its status as a non-defence pact that gives this security agreement many symbolic political meanings. Because the history of the bilateral relationship was often overshadowed by security and political suspicions, the security agreement meant in effect, a declaration that the countries were no longer potential enemies.[45] As President Soeharto openly declared, he hoped this historic security agreement would remove all Australians' remaining concerns that Indonesia might pose a threat to them.[46] Within a broader context, the security agreement was an agreed response to the changing balance of power within the region.[47] The agreement sent a message (warning?) to any potentially destabilising power that Australia and

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[42] Quoted in Gary Brown, Frank Frost, and Stephen Herlock, "The Australian-Indonesian Security Agreement: issues and implications," Research Papers, Foreign Affairs, Defence and Trade Group, No. 25/1995/96, p. 4.

[43] See Yusuf Wanandi, "The Australia-Indonesia Security Relationship," *op. cit,*. especially conclusion.

[44] "RI-Australia Setujui Perjanjian Keamanan," *Kompas,* 15 December 1995; and "Hari Ini, Perjanjian Keamanan RI dan Australia Ditandatangani," *Kompas,* 18 December 1995.

[45] Harold Crouch, "Another symbol of strengthening ties," *Australian Financial Review,* 20 December 1995.

[46] "Rasa Curiga Australia Diharapkan Menghilang," *Kompas,* 19 December 1995.

[47] Paul Dibb, "Indonesia treaty forges link in security chain," *The Australian,* 30 January 1996.

Indonesia are prepared to act together to defend regional interests. From this perspective, the security agreement is a reflection of a growing consensus between Australia and Indonesia based on "the notion of shared security interests rather than defence against common threats."[48]

There are other benefits of this security agreement, specific to each of the parties. For Australia, the signing of the security agreement means that it has met its regional strategic objectives as expressed in its foreign policy. Australia is more secure because it has similar agreements with each country in the region; Australia already has formal associations with Malaysia and Singapore under the Five Power Defence Arrangement (FPDA), which also includes New Zealand and Britain. With New Zealand, Australia is also linked under ANZUS, and with Papua New Guinea through the Joint Declaration of Principles between Australia and PNG. Furthermore, Australia could use the agreement to demonstrate diplomatically to other countries in the region that it is a genuine, integral part of the region. The security agreement proves that when Australia mentioned in the White Paper that Indonesia is a key element in Australia's approach to regional defence engagement, Australia was serious.

From Indonesia's perspective, the signing of this security agreement has signalled a considerable change in its foreign and defence policy outlook. Although the Indonesian government constantly argues that this is not a security or defence pact, the agreement does indicate a substantial shift in relation to Indonesia's previous record as a non-aligned member, and in relation to its principles of independence

[48] Alan Dupont, "The Australia-Indonesia security agreement," *Australian Quarterly*, Vol. 68 no. 2, 1996, p. 51.

which have guided Indonesia's foreign policy. Furthermore, by signing Indonesia has recognised the value of the military facilities to which it has access in Australia. Indeed, one author argues that by signing this security agreement, Indonesia has actually made a saving on its defence expenditure. Because it creates feelings of security and breaks down suspicions, Indonesia can confidently divert some of its military budget to improve the economic welfare of its people.[49]

Although the security agreement received widespread support, it also excited many critical comments. The first came from those who essentially opposed the Australian decision to provide military aid to Indonesia. They argued that providing military aid to Indonesia would not help the Indonesian government to improve its bad record on human rights, and indeed it would not encourage the establishment of a genuine democracy. Thus, they said it is a waste of money and time.[50] Parallel to these views are those that support the independence of East Timor. They argue that the security agreement "might be invoked by Indonesia to place pressure on Australia to clamp down on the activities of Timorese in Australia."[51]

Other critics have focused on the lack of public scrutiny and secrecy surrounding the negotiating process. The words 'adverse challenges' have led to considerable confusion on just who or what would be an 'adverse challenge'. There has been criticism in Indonesia that the Indonesian decision to sign the security agreement was completely unnecessary and that its gains are only symbolic. These

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[49] Greg Earl, "How Indonesia Saves from Security pact," *Australian Financial Review,* 18 December 1995.

[50] See arguments by Rodney Lewis, "The Indonesian Treaty - Ignoring Human Rights," *Australian Financial Review,* 21 December 1995; Malcolm Broker, "A Waste of Time - and Hits Democracy," *Canberra Times,* 19 December 1995; and David Jenkins, "Force Before Forum," *The Sydney Morning Herald,* 19 December 1995.

[51] Gary Brown, Frank Frost, and Stephen Herlock, *op. cit.*, p. 13.

critics argue that its ambiguity is at the expense of the Indonesian philosophy of self-reliance, and that it has led to confusion in neighbouring countries.[52]

In summary, this chapter has revealed that the defence cooperation between Australia and Indonesia was one that was heavily effected by the Jenkins affair in 1986. However, efforts made by defence officers on both sides have proven successful in improving the defence bilateral relationship. An increasing awareness by both countries' strategic planners about changes to the balance of power in the Asia Pacific region and the likely implications of that change, have pushed the national interests of Australia and Indonesia to the point where they coincided. This new awareness has opened opportunities for further cooperation, and development, particularly around defence areas, becomes inevitable.

In attempting to make their defence cooperation closer and stronger, the strategic planners of Australia and Indonesia have put a high value on the personal/ informal approach. Both sides feel it necessary to develop close and good personal relationship because it could be a solid foundation for long-term defence cooperation. Personal approaches (mateship diplomacy) undertaken by Alatas and Evans, have been utilised by both sides defence officers in managing the bilateral relationship. The chapter, moreover, has revealed that Australia and Indonesia have contributed similar degrees of responsibility in maintain the stability of the region. This has been clearly evidenced in the signing of the security agreement by both countries.

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[52] Greg Earl, "Senior Indonesian criticises Aust security pact," *Australian Financial Review*, 23 May 1996,

CONCLUSION

This study has indicated that the bilateral relationship between Indonesia and Australia was unstable between 1945 and 1986. The relationship was relatively cordial between 1945-1950, but after that it proved hard to return to that same level. At different periods of time the relationship was dominated by particular issues. Overall, these issues were political and strategic rather than economic. The economic dimension therefore was marginal to the overall relationship in the period between 1945 and 1986.

The close relationship that Australia and Indonesia experienced between 1945-50 emanated from the general support and sympathy the Australian public gave to Indonesia's struggle for independence. Many Australians opposed the Dutch objective of regaining power in Indonesia. Various Australian unions demonstrated their support by embargoing Dutch ships, particularly ships that ferried war equipment, troops, and ammunitions. In 1947 Indonesia chose Australia to represent it in the United Nations (UN) Good Offices Committee, which was established to arbitrate the dispute between Indonesia and the Dutch. On the committee Australia argued in favour of Indonesia's independence.

This warm relationship cooled in the 1950s when the countries came into conflict over the issue of West New Guinea (now Irian Jaya). Australia opposed Indonesia's effort to integrate West New Guinea on the grounds of its security needs

and strategic interests. Australia was of the view that West New Guinea was part of its security chain, that might help protect it from communist incursions from the North. The fact that Indonesia was politically close to the Soviet Union and China, combined with ignorance about Indonesia, deepened the Australian perception of threat. As a result, Australia tried by various means to prevent Indonesia from gaining sovereignty over West New Guinea. Australia failed since it did not get support from its main ally, the US, which, under the Kennedy administration supported Indonesia's position on the issue of West New Guinea.

Conflict between Australia and Indonesia occurred again between 1962 and 1966, this time because of Indonesia's policy of *konfrontasi* over the creation of Malaysia. Under Soekarno's leadership, already close to the Eastern bloc, Indonesia argued that the creation of Malaysia represented the reappearance of colonialism. It was a project through which imperialism would remain in Asia, and the establishment of Malaysia would directly endanger Indonesia's security. This claim was rejected by the Australian government which felt that its security and strategic interests were themselves threatened by Indonesia's activities. Ideology, symbolised by Soekarno who was 'sympathetic' to communism and by Menzies who was anti-communist, played a major role in escalating Australia's and Indonesia's conflict over the confrontation issue. It ended, however, when Soekarno was replaced by Soeharto in 1966 following an abortive communist coup in September 1965 in Jakarta. Soeharto subsequently abandoned Indonesia's policy of confrontation.

The abandoning of confrontation policy and Australia's support for the new government in Indonesia generated a new climate for the relationship between

Australia and Indonesia. Australia's decision to adopt "the politics of aid" as the basis of its approach to Indonesia changed the character of the relationship. In the early 1970s, it expanded, due in large part to the close personal relationship between President Soeharto and Prime Minister Gough Whitlam. However, the relationship began to deteriorate once more when Indonesia took over East Timor in 1975.

Previous studies have taken the view that the whole relationship between Australia and Indonesia tended to be a one-issue relationship, characterised by frequent outbursts of irritation at the government level. Most argue that this phenomenon was primarily due to the lack of a solid institutional basis to anchor the interests of both countries. The lack of economic integration also did not help the situation.

There were two different views regarding possible solutions to this kind of relationship. The first argued that the vast cultural differences between the two countries were at the root of the unstable relationship, and proposed as a solution that cultural understanding be encouraged. The second argued that political conflict could be minimised or avoided if both countries felt economically important to each other. Thus, upgrading the economic relationship was seen as means to achieving stability.

In examining the relationship between Indonesia and Australia during 1986 and 1996, this study has also based its analysis on a systemic approach. Its basic premise is that the interaction between states can not be separated from the general pattern of international relations, especially for small and middle powers such as Australia and Indonesia, since their foreign policies mostly follow trends within the international system. Within this framework, the bilateral interaction between

Australia and Indonesia in 1986-1996 should most appropriately be examined against the backdrop of the trends of the international system in the 1980s.

Two major international phenomena occurred in the 1980s. There were shifts in the international balance of power on the one hand, and increasing global economic integration on the other. A shift in the balance of power began following the decline of the East-West conflict, which accelerated when Gorbachev introduced Perestroika and Glasnost. As has been discussed, Gorbachev's reform experiment failed but it assisted in the dissolution of the Soviet Union. This left the US as the only remaining super power, although China, India, Japan, and the European Union were seen as potential alternative poles of power. Nevertheless, the shifting balance of power in the 1980s gave birth to a much more fluid international environment in which more avenues were for middle and small power nations to achieve a global political role.

Economic issues emerged as dominant factors in the behavious of states following the decline of the East-West conflict. The decline of geo-political issues made economic issues a major international concern. Along side of this came the notion that global economic liberalisation was the better option for handling international economic problems than statist, nationalistic or protectionist policies. The massive improvements in the technology of transportation and communications have assisted the growth in importance of global economic issues. In the end, internationalisation of the global economy was inevitable and countries which preferred to close their domestic markets and continue with a highly regulated economy, tended to suffer most from the fluctuations in the global economy. Nevertheless, there was a common and genuine view among many nations that the

decline of the East-West conflict significantly reduced the significance of geo-political issues, while geo-economics issues became pre-eminent. As a result, economic competition intensified and many states seemed to accept that it was time to focus more closely on economic issues.

This is a situation that Australia and Indonesia could not afford to avoid and they have had to adjust to it. The nature of both countries' economies, which had depended upon open global markets for exporting agricultural products, left little option but to deregulate in favour of opening to the global economy. For Australia, its continued economic decline sharpened by a global economic recession in the early 1980s, had to confront massive economic growth in the Asia Pacific. On the other hand, this decline triggered the Australian government to deregulate its economy and engage with the Asia-Pacific countries. This study has highlighted the Australian government's continuous efforts to engage with the region and reform its economy. It is in this context that the Australian government restructured its foreign policy focus from one that was previously oriented toward the US strategically, to one that was more economic and regionally oriented. The primacy of economic issues became an integral part of Australia's foreign relations in the Asia-Pacific region. This does not, however, imply that Australia considered its strategic concerns less important. Indeed, defence and foreign policy have become an integral part of that restructuring process, both focusing on the Asia Pacific region.

For Indonesia, the primacy of economic policy and the priority given to the ASEAN region have been an integral part of its foreign policy since Soeharto assumed power in 1966. The need to concentrate on improving the domestic

economy has been the main reason for this. Indonesia always needs to be confident that the ASEAN region is stable, so that it may avoid spending scarce resources to protect the security of its far flung territory. As a result, Indonesia's foreign policy under the New Oder has taken a low profile, particularly outside ASEAN. In the 1980s, however, Indonesia began to move towards a more assertive style of foreign policy and significantly increased its role and activity at the international level. Indonesia was one of the main parties involved in finding a settlement to the Cambodian conflict. Indonesia's involvement in the South Pacific region intensified, economic relations with communist countries expanded, and it participated in the Cairns Group trade forum. At the same time Soeharto's status as an 'international statesman' grew. He was chosen to speak on behalf of developing countries from the southern hemisphere at a Food and Agriculture Organisation of the UN's meeting in Rome in 1984. Subsequently, Indonesia's foreign policy in the 1980s was seen as becoming much more active.

There were several reasons for Indonesia's adoption of a more active foreign policy throughout the late 1980s. The government felt that Indonesia was at a stage where it was stable and economically strong enough to fulfil its international obligation to promote and maintain peace in the world through cooperation. This obligation is laid out in the Preamble of Indonesia's 1945 constitution, but had been rather marginalised during the period in which Indonesia concentrated on improving economic development. Indonesia's economic growth depended very much on the export of oil and agricultural products and when their prices fell in the early 1980s, the Indonesian economy was heavily effected. It was forced to diversify exports and

increase its industrialisation. In an effort to find new markets for its new industrial products, Indonesia expanded relations with other countries including with communist countries. Another important reason for the move to a more active foreign policy was the increasing international attention to the East Timor issue. Many countries questioned and indeed challenged Indonesia's position over the issue by voting against Indonesia in the UN. These objections came mostly from countries with which Indonesia had had few dealings and with which Indonesia had only slight relationships, such as countries in the South Pacific and the former Portuguese colonies in Africa. This forced Indonesia to reassess its diplomatic priorities. The increasing importance of the East Timor issue for other countries put Indonesia in the position of having to make more aggressive diplomatic efforts to win support in the UN. Thus Indonesia was obliged to widen its foreign policy objectives beyond ASEAN.

It was within the new international environment and evolving new foreign policies that Australian-Indonesian relations between 1986 and 1996 developed and became stronger. At the government level, mutual understanding grew considerably as indicated by the changing attitudes of both sides in assessing the value of the bilateral relationship. The real outcome to this change can be seen in the diplomatic efforts deployed by both sides to repair the relationship after it was heavily effected by the Jenkins affair in April 1986. Diplomatic efforts, particularly the roles of both countries' Foreign Ministers, initially Bill Hayden and Mochtar Kusumaatmadja and later Gareth Evans and Ali Alatas, were instrumental in repairing the damage. The former two successfully laid down first principles for bilateral cooperation and these

opened the way for Alatas and Evans to raise the quality of the relationship, particularly after both signed a new framework of cooperation in 1989. The main objectives of this new agreement were to broaden the relationship and to collaborate in areas of converging interests, including those at multilateral level. In addition, it also contained proposals to increase mutual cultural understanding and for that purpose, the Australia Indonesia Institute (AII) was formed. The AII's main task was to help the governments in identifying areas and activities which might promote greater cultural understanding.

Most importantly, this study has argued that by signing the new framework, both governments have invented a new discourse for the management of the bilateral relationship between Australia and Indonesia. Obviously, the new framework of cooperation does not deny the importance of cultural differences between Australia and Indonesia. But by stressing the importance of the broader relationship and by committing to concentrate in areas of converging interests, both sides have indirectly declared a mutual responsibility to maintain the stability of the relationship. It buried Indonesia's old notion that it was primarily in Australia's interests to have good bilateral relationship. This study has also highlighted the importance of 'mateship diplomacy' in managing the new relationship, particularly as demonstrated by Alatas and Evans, and then by Keating and Soeharto. It assisted both sides in reaching new heights in understanding, particularly when both governments were facing difficulties. In short, the political relationship between the two nations has strengthened.

This strong relationship was reflected in economic cooperation. This study has found that economic integration between Indonesia and Australia has increased

rapidly. This is obviously important for the continuity and stability of the bilateral relationship and might well act as a glue to keep the relationship together should some destabilising episode occur. It is now unlikely that one single issue would easily disrupt the relationship in the way that the Jenkins affair did. For this reason, the current imbalance in trade needs to be quickly rectified in order to maintain equilibrium in the bilateral economic relationship. The degree of the present economic integration needs to be improved if it is to reach a point where it can benefit both countries equally.

A strong relationship has emerged also in the defence area. Increasing awareness within Australia and Indonesia of the balance of power and its impacts in the Asia-Pacific region brought both sides closer together. This opened opportunities around defence collaboration, and "mateship diplomacy" was again successfully applied, this time among defence personnel. By building trust through closer personal relationships, both countries found it easier to share responsibility for regional security. That trust was symbolised by the security agreement signed by Australia and Indonesia in December 1995.

Appendix

Agreement Between the Government of Australia and the Government of the Republic of Indonesia on Maintaining Security

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THE GOVERNMENT OF AUSTRALIA AND THE GOVERNMENT OF THE REPUBLIC OF INDONESIA (hereafter refereed to as the 'Parties')

DESIRING to strengthen the existing friendship between them;

RECOGNISING their common interests in the peace and stability of the region;

DESIRING to contribute to regional security and stability in order to ensure circumstances in which their aspirations can be best realised for the economic development and prosperity of their own countries and the region;

REAFFIRMING their respect for the sovereignty, political independence and territorial integrity of all countries;

REAFFIRMING their commitment to the settlement of all international disputes by peaceful means in accordance with the Charter of the United Nations and international law;

RECOGNISING that each Party has primary responsibility for its own security;

MINDFUL of the contribution that would be made to their own security and that of the region by cooperating in the development of effective national capabilities in the defence field and hence their national resilience and self-reliance;

NOTING that nothing in this Agreement affects in any way the existing international commitments of either Party;

THEREFORE AGREE as follows:

Article 1

The Parties undertake to consult at ministerial level on a regular basis about matters affecting their common security and to develop such cooperation as would benefit their own security and that of the region.

Article 2

The Parties undertake to consult each other in the case of adverse challenges to either party or to their common security interests and, if appropriate, consider measures which might be taken either individually or jointly and in accordance with the processes of each Party.

Article 3

The Parties agree to promote--in accordance with the policies and priorities of each--mutually beneficial cooperative activities in the security field in areas to be identified by the two Parties.

Article 4

This agreement shall enter into force on the date of the later notification by either Government of the fulfilment of its requirements for entry into force of this Agreement.

IN WITNESS WHEREOF, the undersigned, being duly authorised by their respective Governments, have signed this Agreement.

Done at Jakarta on the eighteenth day of December, one thousand nine hundred and ninety-five in the English and Indonesian languages, both texts being equally authentic.

FOR THE GOVERNMENT OF AUSTRALIA

GARETH EVANS
Minister for Foreign Affairs

FOR THE GOVERNMENT OF THE REPUBLIC OF INDONESIA

ALI ALATAS
Minister for Foreign Affairs

(Signed: Jakarta, 18 December 1995.)

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