

# Improving Human Capital in Indonesia through IA-CEPA

## Opportunity for Skills and Expertise Transfer

### Highlights

IA-CEPA provides opportunities for Australia's skills and expertise in various fields, including particularly in infrastructure development, to be utilised in Indonesia. This can provide opportunities to build a stronger economic relationship, closing the infrastructure gap in Indonesia and further increasing trades and investment between the two countries as a result.

This article was prepared based on the 8-week 2020 Summer Down Under Research work undertaken by a UWA undergraduate engineering student, under the supervision of a PATREC researcher.

### Introduction

The Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) was entered on the 5th of July 2020 (Department of Foreign Affairs and Trades, 2020). The IA-CEPA would create and unlock much potential in bilateral economic agreement (Winanti and Springer, 2019). Given that the infrastructure gap in Indonesia is evident (see Springer, 2020), it is also evident that the IA-CEPA will encourage closing the gap and provide further trades and investment between the two countries. This article focuses on another dimension, which is the educational and work opportunities provided through the agreement. Exchanging and/or transferring skills and expertise would improve the quality of human capital in the receiving country and can accelerate economic growth as a result.

### IA-CEPA

Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) is a comprehensive free trade agreement, Indonesia and Australia governments have established to increase trades and investments (Winanti & Springer, 2019). Indonesia and Australia can benefit from (Winanti & Springer, 2019):

- The increase of market access and competitiveness in agriculture, fishery, forestry, and manufacturing
- Improving Indonesian workers to meet international standards by allowing up to 200 training visas per year and skilled labour exchange
- The increase in investment for both countries and Indonesia are expected to become a destination for Australian investment. Also, IA-CEPA will bring opportunities for Indonesian investors to invest in Australia
- Establishing a more sustainable platform for bilateral economic cooperation

The IA-CEPA is expected to encourage the collaboration of two economic powers, making use of each other's economic complementarity, competitiveness, and productivity to target market access in third countries (Winanti & Springer, 2019).

Infrastructure gap in Indonesia is evident (Springer, 2020). Major infrastructure development in Indonesia heavily relies on foreign investments as can be seen through the Belt and Road Initiatives and the Partnership for Quality Infrastructure. Through the economic collaboration, the IA-CEPA will, not only increase trades and investments in both countries but also opens up an opportunity for Australia to

contribute to infrastructure development in Indonesia, which will involve exchanging Australia's skills and expertise in infrastructure development.

## The Importance of Human Capital in Indonesia

According to the World Bank (2018), people can be more productive and innovative if the country can improve their human capital such as skills, education, health, and resilience. Capitalising on a human resource will be a great investment for any developed country.

A study (Adam & Negara, 2015) stated that Indonesia lags in human capital compared to other countries of similar economic level. Indonesia's Human Capital Index (HCI)\* in 2018 was 0.53, which is significantly lower compared to Australia with HCI of 0.80 (World Bank, 2020). Improving the quality of human capital in Indonesia is crucial to growing the Indonesian economy.

## Indonesia's Strategies to Improve Human Capital

Indonesia's critical strategic policies are (Mulyani, 2018):

1. Improving better soft skills and new curricula to engage with complex problem solving, critical thinking, creativity, effective human resource management, negotiation, and cognitive flexibility.
2. Promoting vocational training and apprenticeship programs among vocational schools with manufacturing and service industries.
3. Improving qualifications, requirements, and professional certification institution across the country.

Additionally, according to Ministry of National Development Planning of Indonesia (Bappenas), the Vision of Indonesia 2045 includes providing equitable infrastructure development throughout Indonesia, which focuses on infrastructure development outside Java Island to reduce inequality among regions (Bappenas, 2019). This includes improving public transport, construction of city gas pipelines, drinking water and sanitation pipelines, as well as waste management.

## Educational Opportunity Through the IA-CEPA

IA-CEPA provides a variety of educational and investment opportunities to Australia and Indonesia, which includes (Department of Foreign Affairs and Trade, 2020):

- Australian suppliers can own 67 per cent of investments in the work training sector
- Australian providers can establish a work training business anywhere in Indonesia

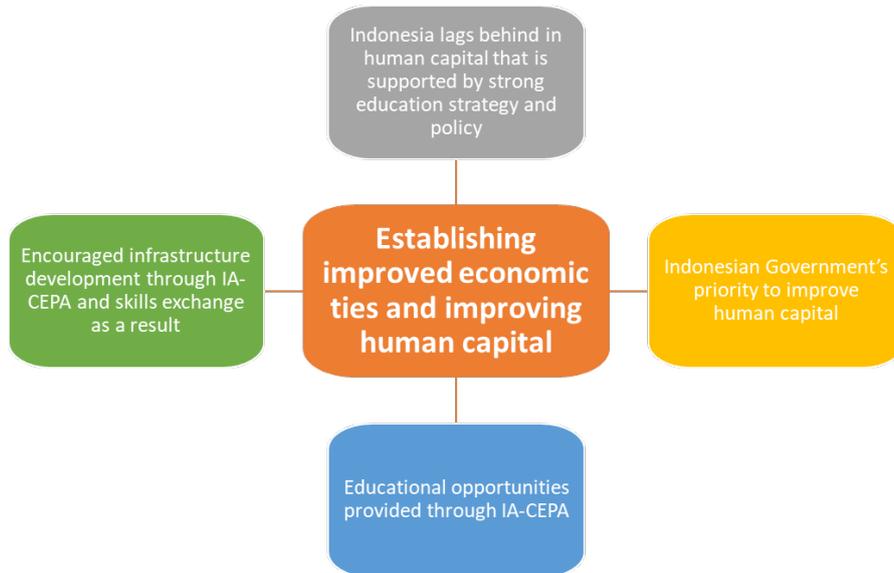
- Australian training providers in this sector can offer all Australian Qualifications Framework qualifications, and Indonesian Qualifications Framework qualifications levels 1-5 in subject matters including technical and engineering, business administration, languages, tourism, management, information technology, art and agriculture
- Sending people with tertiary-level skill qualifications to undertake work-related training for up to six months in the other country, in financial and insurance services; mining, engineering and related technical services; and, information media and telecommunications services sectors
- Allowing up to 200 Indonesians per year who are sponsored by an approved organisation in Australia to undertake workplace-based training in Australia for up to six months in education, tourism, telecommunications, infrastructure development, health, energy, mining, financial services and information communication and technology sectors
- Increasing the annual limit of Work and Holiday visas for Indonesians from the current 1,000 places to 4,100 places shortly after entry into force and will be stepped up each year to 5,000 by the sixth year

The Work and Holiday visas (subclass 462) let people within the age of 18 and 30 (inclusive) to have extended holiday and work (Department of Home Affairs, 2020). Before the IA-CEPA has come into force, the quota of Indonesian holiday workers was 1,000 applicants each year (Department of Home Affairs, 2019). The IA-CEPA will increase this by 5 % per year, up to a total of 5,000 visas, which is equivalent to those from China (excluding Special Administrative Regions) that is currently holding 5,000 visas quota (Department of Home Affairs, 2019).

## Concluding Remarks

Although IA-CEPA does not directly contribute to improving the Indonesian education sector and Indonesian government's education strategies and policies, it will certainly encourage exchanging knowledge and expertise between Indonesia and Australia, through increased skilled labour exchange opportunity and investment opportunity in the Indonesian education sector. The role of education is significant for the quality of human capital in order to build a healthy society and sustaining economic growth (Adam and Negara, 2015). IA-CEPA is an agreement that will benefit not only Indonesia but Australia as well, by providing investment opportunities in both infrastructure development and education provision.

*\*HCI is a quantified measure of the contribution of health and education to the productivity of the next generation of workers (World Bank, 2020)*



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