

Submission to the General Review of the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA)

by Professor Jennifer Westacott AC, Australia's Business Champion for Indonesia

I would like to thank DFAT for the opportunity to provide a submission to IA-CEPA General Review. The Review is extremely timely on two fronts.

Firstly, it presents an important opportunity to integrate the objectives of *Invested: Australia's Southeast Asia Economic Strategy to 2040* under the framework of IA-CEPA for greater impact, particularly on driving investment, labour market integration and increasing people-to-people links. In this respect, the Review provides a test case for the Office of Southeast Asia and the relevant trade divisions to work together for an integrated approach.

Secondly, it is occurring at a time of unparalleled geoeconomic change. Trade practices and rules that have opened global markets and integrated supply chains for decades are now under threat. Five years ago, IA-CEPA was described by senior Indonesian leaders as "setting the high watermark". However, much has changed in the external trade landscape, and Indonesia has moved concertedly to diversify and deepen its economic relationships. This raises a series of questions we must consider: has the competitive edge of IA-CEPA eroded? How does Australia position itself as Indonesia's economic partner of choice? What do advances in other areas of the relationship, like the Treaty on Common Security, mean for our economic relationship?

I urge the Australian Government to use the IA-CEPA General Review to work collaboratively with the Indonesian Government and private sector groups to not only ensure the full implementation of IA-CEPA, but to also push the boundaries further. This includes building on advances and best practice in recent FTAs signed by both countries, including the Australia-UAE CEPA, IEU-CEPA, and IC-CEPA.

Both countries have made strong progress in deepening the bilateral economic relationship under IA-CEPA, but there is still more work to do. Below I outline three key points for the review to consider:

1. **Implementation:** Ensuring that what has been agreed by both parties under IA-CEPA is being fully implemented.
2. **Investment:** Addressing existing barriers to two-way investment and implementing mechanisms under IA-CEPA through which investors can more easily and confidently invest.
3. **Labour market integration:** Expanding labour mobility pathways and mutual recognition of qualifications.

Implementation

While I want to see ambition in building on IA-CEPA, we must remain focused on ensuring all existing aspects of the Agreement are being fully implemented. Australian businesses need to see consistent and timely issuance of import permits and allocation of tariff rate quotas. The uncertainty of the Indonesian trading environment damages business confidence and curtails

interest among Australian traders in exploring long-term investment partnership models in Indonesia – a key objective of the *Invested* strategy.

One way to support IA-CEPA implementation is increased ministerial engagement and closer consultation with the private sector. To this end, the existing consultative architecture under IA-CEPA should be linked to the annual bilateral meeting between the Australian Trade Minister and Indonesian Coordinating Minister for Economic Affairs. It should also provide structured opportunities for engaging business associations, such as the Australia Indonesia Business Council (AIBC), Indonesian Employers' Association (APINDO), Business Council of Australia (BCA), Indonesia Australia Business Council (IABC), Indonesian Business Council (IBC) and Indonesian Chamber of Commerce and Industry (KADIN).

Recommendation: Amend consultative architecture in IA-CEPA to ensure relevant Ministerial and business engagement with Indonesia.

Implementation of IA-CEPA would also benefit from greater linkages with the broader Indonesia Development Program. While Katalis was the program established under the Economic Cooperation Chapter of IA-CEPA to support its implementation, other programs such as Prospera, KIAT and KINETIK can also be leveraged to maximise IA-CEPA's potential. These programs contribute to policy development and reform, engage wide-ranging decision makers and stakeholders, and undergo activities aimed at improving market access, increasing two-way trade and investment, and strengthening Indonesia's inclusive economic growth.

Recommendation: Use bilateral development programs, including Katalis, Prospera, KIAT and KINETIK, to support IA-CEPA implementation and realisation of the benefits of IA-CEPA.

The review should also consider mechanisms for managing performance and accountability under IA-CEPA. This could include metrics such as IA-CEPA utilisation rates, utilisation of the Skills Development Exchange, person-to-person and business-to-business scheme performance, and the tracking of trade and investment data.

Recommendation: Introduce a 'report card' which could include key performance indicators to track outcomes under IA-CEPA.

Investment

The Australian and Indonesian economies have notable complementarities and significant joint potential. Australian businesses and investors are well placed to feed into and support Indonesia's growth story across a range of sectors including agriculture, education and skills, mining, engineering and healthcare. We play a role in supporting Indonesia's food security and clean energy transition. Equally, there are substantial Indonesian investments in Australia and enormous potential for skilled Indonesian workers to help fill gaps in Australia's workforce to help drive our economic growth into the future.

Strong progress in trade between Australia and Indonesia has been made under two years of *Invested*, underpinned by five years of expanded market access and certainty with IA-CEPA. Closer ties are demonstrated by two-way trade almost tripling to \$35 billion since IA-CEPA came into force in 2020, with Australian Foreign Direct Investment flows to Indonesia increasing to over \$1 billion,

making Australia a top 10 investor in Indonesia. But this growth in investment is lagging behind the strong rise in goods and services trade. There is more to do to ensure two-way investment between Australia and Indonesia can reach its potential.

As Australia's Business Champion for Indonesia over the past two years, many Australian business stakeholders have raised with me the barriers they consistently face operating in Indonesia, which serve to dissuade investment by Australian firms. These challenges include:

- Indonesia's 12-month export proceeds retention regulation, requiring businesses to hold foreign exchange deposits in the Indonesian financial system and, most recently, in state-owned banks;
- difficulties complying with local labour laws or hesitation hiring local labour due to onerous severance packages;
- lack of confidence in Indonesia's legal system if a dispute with the Indonesian government arose while conducting business (there is a sentiment that Indonesian law favours locals, making foreign investors reluctant to invest substantial capital);
- local content and partnership requirements;
- discriminatory taxation treatment; and
- underdeveloped processes in public-private partnerships (PPPs).

There is scope for Indonesian agencies to develop frameworks and standard contracts for PPPs to increase investment. Australia has strong commercial experience in this field which could be leveraged.

Recommendation: Include new provisions on public-private partnerships (PPPs) in the IA-CEPA Investment Chapter and use development programs (such as KIAT and Prospera) to support Indonesian Government agencies in developing PPPs and bolstering legal frameworks to increase confidence of Australian investors.

Labour market integration

IA-CEPA made important initial steps in skills and labour mobility through the Skills Development Exchange Pilot, increasing the number of places available for Indonesians seeking Australian Work and Holiday visas and the Mutual Recognition of Professional Engineers through side letters of IA-CEPA. However, opportunities remain to deepen skills and labour market integration. These include additional mobility pathways and the mutual recognition of qualifications in additional priority skilled sectors, such as nursing, through the side letter on Improving Health Professional Standards and Access to Health Services and improvements to the Memorandum of Understanding on a Pilot Workplace-Based Training Visa Arrangement.

Recommendation: Explore extending the subclass 403 visa to a maximum of 2 years for Indonesia to allow for it to be used for nursing and aged care mobility. Additionally, explore a stream specific to Indonesia, to stand alongside the existing MATES and PALM schemes.

The Review should be used to explore further improvements in Technical and Vocational Education and Training (TVET) and skilled worker pathways. For example, senior figures in the Indonesian Government have expressed their interest in deploying skilled Indonesian nurses to Australia to boost employment and increase remittances while further upskilling nurses through experience in

the Australian health system, which would be of significant benefit to Australia by helping to cover our significant shortfalls in local skilled nursing labour. Other countries, including Germany and Japan, have already established nursing labour mobility pipelines to source Indonesian nurses.

Katalis, the economic cooperation program under IA-CEPA, is already exploring the feasibility of similar models for Australia, with professional and accreditation bodies finding only a narrow gap in skills between Indonesian and Australian nurses. These gaps could be addressed through existing mobility pathways, with English language skill remaining the largest challenge.

There is strong demand for the Katalis aged care workers pilot program on the Indonesian side, with 1,100 skilled nurses recently applying for 25 personal care worker places under the second tranche of the pilot. The program is expected to accept two cohorts annually.

The review should also consider other skill shortages and labour force gaps with a view to driving mutual recognition arrangements in further professional sectors and expanding the Skills Development Exchange to incorporate specific jobs within the healthcare sector, including nurses and aged care workers.

Recommendation: Explore opportunities for further labour market integration through facilitated labour mobility pathways, including how the Skills Development Exchange and Memorandum of Understanding on a Pilot Workplace-Based Training Visa Arrangement can be leveraged to full programs to meet this.

Finally, I ask this submission be read in conjunction with the joint submission by myself and Dr William Sabandar, Chief Operating Officer of the Indonesian Business Council (IBC), which covers the key points raised at the inaugural *Indonesia-Australia Business Roundtable* held in Jakarta in February 2026, and provides further detail on the issues I have raised above.