



SHAPING THE IA-CEPA: REALISING STAKEHOLDER ASPIRATIONS

Prepared by the Australia Indonesia Business Council for
the Indonesia Australia Business Partnership Group

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SUMMARY OF RECOMMENDATIONS

OVERVIEW OF RECOMMENDATIONS

These recommendations are listed and summarised from the body of the AIBC submission on the IA-CEPA. They should be read in the context of the discussion in the submission.

RECOMMENDATIONS BY THEME

Introduction

1. It is important for government and business in each nation to understand the **situations, priorities and capacities of each nation** and to negotiate an IA-CEPA that takes account of and addresses the differences. In particular, the IA-CEPA must seek to deliver, in each of its components, demonstrable benefits for both parties. **Systems approaches** that address the interdependent components of the economic relationship – trade, investment, movement of people and capacity-building – should be the most effective way of delivering balanced outcomes that are supported by all stakeholders, and build relationships and trust.

Current and future economic relationship

2. AIBC recommends that **outcomes and impact criteria** be set for the IA-CEPA and that continuous or periodic **monitoring and evaluation** be undertaken. Success will be measured by the extent of removal of impediments to trade, investment and movement of people, by the amount of business the two nations do together and by working together, with other nations, and ultimately by the degree of economic integration between Indonesia and Australia.
3. Revised **economic analysis of the benefits and costs** of the IA-CEPA to Indonesia and Australia should be commissioned, to update the impact study done in 2009. As negotiations proceed, it may be advisable to commission a study or studies to examine the impact of proposed provisions in the IA-CEPA on sectors in Indonesia and Australia, and their economies.
4. As its name implies, the IA-CEPA must be **comprehensive and address all relevant traditional and emerging sectors of each economy** and of the two economies working together, but with added emphasis on ‘new economy’ cooperation, such as in e-commerce, innovation systems and sophisticated services, and with high priority given to education and training.

Qualities and provisions of the IA-CEPA

5. The approach to consideration of IA-CEPA provisions should include:
 - a. **Coherence**: does the provision make sense to business, and make doing business easier?
 - b. **Certainty**: is the provision going to be implemented as intended, and will it last or will it change?
 - c. **Costs and benefits**: is the provision going to help business reduce costs and/or add value?

- d. **Accessibility:** is each provision of the IA-CEPA accessible to business and will it be utilised?
6. The IA-CEPA should go beyond last generation trade agreements and **address 21st Century opportunities and issues**. It should be a platform for a new, visionary partnership that is broader, more advanced, modern, and facilitative than a traditional FTA in all aspects of the economic relationship, as well as capacity building. IA-CEPA should therefore be unique compared to Indonesia's and Australia's free trade cooperation with other partner countries.
 7. The IA-CEPA will be as **easy-to-use and trade facilitative** as possible. Economic cooperation itself should be trade facilitative by building capacity to host trade and investment, enhancing institutional capacity, creating pathways for value chains and overcoming market failure through education of business and facilitation of linkages.
 8. AIBC agrees with the governments that the IA-CEPA should be as **high quality** and as **comprehensive** as possible, covering trade in goods and services, investment, movement of people and economic cooperation.
 9. The IA-CEPA should **use existing trade agreements as a start points and precedents**, but **measures should go beyond those of existing agreements** and those currently in negotiation (eg, Regional Comprehensive Economic Partnership – RCEP), otherwise the rationale for the IA-CEPA is weakened. In particular, IA-CEPA should have more advanced commitments than the ASEAN-Australia New Zealand Free Trade Agreement (AANZFTA), including on goods, with much stronger provisions on services, investment and movement of people.
 10. To work well to the benefit of Indonesia and Australia, the IA-CEPA should be **unashamedly preferential**, with both nations understanding that there are strong two-way benefits to be generated by giving each other preference in trade, investment, economic cooperation and movement of people. Australia and Indonesia should provide each other with preferential status at a starting point of status offered to others, but each having a clear preference for trade, investment and collaboration with the other. Where possible, Indonesia and Australia should declare and activate trade and investment preferences that operate above other preferential arrangements.
 11. The IA-CEPA must be **balanced, delivering mutual benefits** to both economies – a win-win partnership based on progressing shared objectives of accelerating sustainable economic growth, growing high quality jobs and raising living standards. It should foster inclusive growth in both countries – including in regions. It should underpin a trade and investment relationship based on joint competitive advantage. It also needs to facilitate development of understanding, relationships and trust between Indonesian and Australian businesses.
 12. **Indonesia's Special Economic Zones (SEZ)**, as currently identified and as may be identified in the future, could provide the **venues for investment and collaboration** unrestricted by regulation applied elsewhere in Indonesia. Indonesia and Australia should discuss the creation of SEZs for specific purposes of cooperation in critical sectors such as education.
 13. IA-CEPA **negotiations should be conducted differently** to other FTA negotiations. The discussions should be **opportunities driven**, with talks centred and agreement reached around both traditional and innovative mechanisms for maximising opportunities and beneficial impact. The usual 'defensive' and 'offensive' modes of negotiation should be supplanted by negotiators identifying joint opportunities and seeking to maximize them.

14. The IA-CEPA should embrace and leverage the **mega-trends of trade and investment**, such as global value chains, ‘servicification’ of manufacturing and of trade, and movement of skilled people. Both economies can achieve much more from these trends through working together than separately.
15. The IA-CEPA should be a **dynamic, living and growing process**, not simply an ‘agree and implement’ trade instrument. Just as the IA-CEPA is different from traditional free trade agreements, so too should negotiations be different. Before the IA-CEPA is fully agreed, measures should be implemented through its early outcomes feature.
16. **Capacity-building via ‘economic cooperation’ is a key for transition of the economic relationship** so as to enable both countries to meet the provisions of IA-CEPA, for business to be able to engage more fully in trade and investment, and for the benefits to flow equitably between economies, and to sub-national regions. The IA-CEPA therefore must have economic and technical cooperation at its core.
17. The Economic Cooperation chapter and the capacity-building activities that flow should seek to move to a new level of collaboration and a true partnership in resourcing and governance. **Adequate and timely design and financial provisioning of agreed Economic Cooperation activities** is essential to the integrity of negotiations, initial activities and delivery of the IA-CEPA. The IA-CEPA negotiation process should take stock of all current and proposed future Economic Cooperation activities and assess them for prioritisation within both the Economic Cooperation stream of IA-CEPA and the wider Australian Aid program with Indonesia.
18. Agreement and delivery of **early outcomes** are fundamental to the design and success of IA-CEPA. These fall into two categories:
 - a. *Provisions* within the IA-CEPA that can be agreed and implemented early (eg, enhanced provisions for movement of people, lifting of certain services trade restrictions)
 - b. *Projects* that are supported by the IA-CEPA to build capacity, strengthen relationships and demonstrate cooperation models (eg, current food security partnership, proposed skills exchange).
19. **Active engagement of business** must occur both during negotiation of IA-CEPA and in its implementation. The IA-CEPA needs measures to tackle poor information availability and market failure. Components for marketing and business facilitation should be stronger than any previous activities implemented by Indonesia or Australia. In particular, there is a need for increased education and support of SMEs in Australia and Indonesia that wish to trade bilaterally and participate in global value chains. Business facilitation should be undertaken by governments in partnership with business associations.

Cross-cutting issues and mechanisms

20. All **cross-cutting measures** identified by the IA-BPG remain valid:
 - a. Reducing all tariffs to zero for all tariff lines on entry into force
 - b. Removing all product quotas on entry into force, with progressive removal in agreed priority areas
 - c. Removing all capital thresholds for business start ups
 - d. Removing all limits to equity holding in all businesses by nationals or companies from the IA-CEPA partners providing this meets the national interest test as

- overseen by the foreign investment review board or equivalent against transparent criteria
- e. Allowing full and free movement of skilled people between Indonesia and Australia
 - f. Providing mutual recognition of educational and skill levels against international standards
 - g. Encouraging improved mutual cultural and language understanding through inclusion in school curriculums
 - h. Tailoring development assistance to facilitate these actions and provide the capacity in Indonesia to implement rapid economic development
 - i. To the extent possible, measures should be aimed at mutual cooperation and collaboration to access global supply chains and service provision
 - j. Engage SMEs in regional areas to better enable them to access markets and reap benefits.
21. In light of changes and experience of the past four years, AIBC recommends that the following **additional measures** be added:
- k. Reducing all tariffs to zero for all tariff lines on entry into force
 - l. Removing all product quotas on entry into force, with progressive removal in agreed priority areas
 - m. Removing all capital thresholds for business start ups
 - n. Removing all limits to equity holding in all businesses by nationals or companies from the IA-CEPA partners providing this meets the national interest test as overseen by the foreign investment review board or equivalent against transparent criteria
 - o. Allowing full and free movement of skilled people between Indonesia and Australia
 - p. Providing mutual recognition of educational and skill levels against international standards
 - q. Encouraging improved mutual cultural and language understanding through inclusion in school curriculums
 - r. Tailoring development assistance to facilitate these actions and provide the capacity in Indonesia to implement rapid economic development
 - s. To the extent possible, measures should be aimed at mutual cooperation and collaboration to access global supply chains and service provision
 - t. Engage SMEs in regional areas to better enable them to access markets and reap benefits.
22. Developing **cross-border, integrated industries and value chains** to supply both domestic and third-country markets should be a high priority for business and for facilitation through the IA-CEPA.
23. The IA-CEPA should facilitate **exchange of knowledge and technology** in multiple ways, including more free movement of skilled people – the principal vector for knowledge exchange – removal of other restrictions on trade and investment in services, in education and training, and in collaboration on research and development.
24. Indonesia and Australia should seek to create shared benefit **by combining comparative advantages, creating competitive advantages** and selling into both domestic and third party markets.

25. The IA-CEPA should facilitate the **economic transformation of both economies**. Not only have Indonesia and Australia the potential to gain much by working as partners, but they have an urgent imperative to do so if they are going to achieve what their leaders and people aspire to.
26. In order to achieve economic transformation, thorough and vigorous implementation of **competition policy** is a vital component of reforms to both the Indonesian and Australian economies that are necessary to attract investment, facilitate business and underpin economic growth.
27. The **Economic Cooperation pillar** must be **substantially additional to current Indonesia-Australia economic governance and infrastructure activities**, including those funded under the Pre-Agreement Facility and must also:
 - a. Reflect the priorities identified by negotiators (informed by business and government) for the IA-CEPA
 - b. Support the implementation of IA-CEPA and its effectiveness in achieving its aims
 - c. Be designed, implemented and delivered expeditiously to meet stakeholder timeframes
 - d. Be resourced by both governments as well as the private sector with either cash or in-kind
 - e. Align with Australia's Aid Investment Plan Indonesia and vice versa.
28. **Effective dispute resolution** is one of the keys to encouraging parties to engage in trade and investment. Building of confidence and trust between Australian and Indonesian firms will be greatly assisted by an appropriate dispute resolution mechanism provided for in IA-CEPA.

Opportunities and initiatives

1. While **most opportunities and issues** addressed by the IA-CEPA **flow across multiple sectors**, AIBC recommends that IA-CEPA **sectors of focus** should include:
 - a. Infrastructure development
 - b. Agriculture and agribusiness
 - c. Mining and energy
 - d. Manufacturing
 - e. Financial services
 - f. Professional and business services
 - g. Education and research
 - h. Health services
 - i. Green economy.
 - j. Digital economy and e-commerce
 - k. Skills and labour exchange
 - l. Tourism and hospitality.

AIBC notes that **infrastructure and skills formation** are two critical enablers of economic growth.

2. In **infrastructure**, Indonesia and Australia have complementary needs and capabilities. There is potential to engage Australian federal and state government agencies, financial institutions, consulting firms, contractors and operators in Indonesian infrastructure. Australian engagement, however, is inhibited by:

- a. Lack of knowledge of opportunities and processes, and perceptions of competition from suppliers from other nations.
 - b. Uncertain processes at all stages of project design, contracting, delivery and operation
 - c. Severe restrictions on provision of services to infrastructure delivery, either through the Negative Investment List or regulation by Ministries, including restrictions on the operation of financial services and professional services firms with the required capacity
 - d. Restrictions on engagement of expatriate professionals necessary to deliver expertise and capacity for complex infrastructure projects.
3. **Agriculture and food processing** are amongst the most complementary of sectors in Indonesia and Australia. AIBC recommends a collaborative, **whole-of-system, value-chain approach** to two-way trade, investment, value adding and supply of third markets. As part of a systems approach, Indonesia and Australia could jointly develop a 'Food Plan 2030' to underpin Indonesian food security, two-way investment and trade, supply of third party markets and capacity-building. Priority sub-sectors for cooperation are:
- a. **Red meat and cattle**, with the IA-CEPA should facilitate reliable access to a wide range of red meat products for Indonesian consumers and ultimately for other markets
 - b. **Tropical fruit** from Indonesia to Australia should be facilitated through capacity-building to meet SPS requirements, to achieve consistent product quality and presentation standards, and to develop viable supply chains, particularly from Eastern Indonesia.
 - c. **Grains** provide excellent opportunities for Indonesia and Australia to cooperate to improve productivity, processing, and supply chains of grains and related products, through:
 - i. Cooperative research and development projects in improvement to farm productivity, optimisation of supply chains, utilisation of products and returns to primary producers
 - ii. Additional co-investment by Australian and Indonesian companies in various parts of the grains and food value chain.
 - d. **Sugar, seafood and other primary products** provide opportunities for similar collaborative approaches to grains, fruit and red meat to be implemented
4. Indonesia-Australia cooperation in **education, training and professional development** is a perfect example of complementary comparative advantages. It has close to the highest potential to activate transformational change in national economies and the economic relationship. There is a need to create a step-change in skills formation between Indonesia and Australia with a bold, integrated program that puts education, training and professional development at the centre of economic cooperation under the IA-CEPA. Components of human capital initiatives under the IA-CEPA are proposed as:
- a. **Skills Exchange** (as proposed by governments) to enable appropriately skilled individuals to travel between Indonesia and Australia for the purpose of undertaking short-term workplace placements and practical skills training with businesses or other organisations.

- b. **VET sector cooperation:** there remains a clear need and an opportunity for an Indonesia-Australia partnership to help build a public-private networked approach to VET institutional capacity and consistent skills formation, based on an internationally-recognised qualifications framework and consistent curricula.
 - c. **Nurse training:** a collaboration with Indonesia in training of Indonesian nurses, building on current training of Indonesians in the field, is currently being developed, noting however, that involvement of Australian doctors and nurse trainers in training in Indonesia is severely limited by Indonesian MNP and workforce regulations.
 - d. **Recognition of qualifications:** Australia and Indonesia will benefit from collaborating to develop a framework for mutual recognition of qualifications, and as a prerequisite for that, develop an Indonesian qualifications framework that meets international benchmarks.
 - e. **University cooperation:** Cooperation between universities in Indonesia and Australia is a key pathway for rapid growth of capacity and for opening up collaborations in research, teaching and learning. The IA-CEPA must therefore prioritise cooperation in university education and research as a crucial avenue for closer economic relations. It should open the Indonesian university sector for foreign investment and staff exchange.
 - i. There is a need and an opportunity for Indonesia and Australia to collaborate to develop **consistent transitional programs** for university entry from secondary school, including facilitation of operation of expert training providers to deliver this in Indonesia. IA-CEPA could provide a vehicle to support this.
 - ii. Indonesian and Australian universities conduct some **research** jointly, as well as cooperating on **capacity-building**, but activity falls far short of what research should be between two nations with so many common interests. IA-CEPA can provide a vehicle for stimulating research cooperation and for removing barriers, notably relating to restrictions on MNP and foreign investment.
5. There is a need to free-up two-way '**movement of natural persons**' (MNP) between Indonesia and Australia and vice versa. Current restrictions on **MNP** severely hamper business in both nations and hold back trade and investment, particularly in services. Key initiatives required are:
- a. AIBC recommends that both Indonesia and Australia greatly ease restrictions on both single entry and multiple entry **business visas**, plus **work permits** as a matter of highest priority.
 - b. Mechanisms should be developed to enable both **seasonal and skilled labour migration** from Indonesia to Australia. These should include tailored training programs and liberalisation of English language requirements for seasonal and short-term project workers.
 - c. AIBC recommends extending **two-way internship opportunities** with businesses, government organisations, and not-for profit bodies such as universities, business associations (eg AIBC) and NGOs, facilitated by both governments.

6. Given the growing role of **services** in the Indonesian and Australian economies, in enabling other sectors, in bilateral trade and investment, and in accessing global value chains, services need particular attention in the IA-CEPA. Despite their importance, trade and investment services are unnecessarily restricted by both Indonesia and Australia, through both the Negative Investment List and restrictions on MNP. A stronger services sector in Indonesia will help to
 - a. Attract and support investment, and meet the needs of Indonesian firms and people (particularly the middle class)
 - b. Capture more value in Indonesia from M&A and commercial activity there
 - c. Help to drive increased exports of both goods and services.
 Key service industries for attention include:
 - a. Financial services
 - b. Professional services
 - c. Healthcare services
 - d. Education services
 - e. Mining services.
7. Development of a strong **mining equipment, technology and services (METS)** sector provides a technology-rich second pathway to adding value to minerals and coal, and oil and gas. Current restrictions on Australian METS investment and contracting in Indonesia are not in the interests of either economy.
8. Of the traditional sectors, Indonesia's **energy and mineral resources sector** has arguably the most room for lifting its contribution to the national economy, while Australia is acknowledged as having world-class capability across value chains. AIBC recommends that a minerals and energy chapter is needed in the IA-CEPA, which should include liberalised bilateral trade and investment rules.
9. AIBC recommends that negotiators should ensure that **creative industries and sport** are featured in the IA-CEPA, with measures to encourage bilateral cooperation.

Proposed early outcomes

Infrastructure

IA-CEPA PROVISIONS

- Easing of key restrictions on services provision, including financial and construction services
- Easing of restrictions on work in Indonesia by foreign professionals engaged in infrastructure-related services.

PROJECTS

- Agreement to IndII follow-on program, including PPP centre
- Support for engagement of Australian firms in infrastructure delivery in Indonesia.

Red meat and cattle

IA-CEPA PROVISIONS

- Reaffirmation of zero import tariffs and tariff elimination secured under AANZFTA, and elimination of remaining import tariffs
- Removal of barriers to investment, services and movement of people in the sector.

PROJECTS

- Faster delivery of outputs of the *Partnership on Food Security in the Red Meat and Cattle Sector*.

Tropical fruit

IA-CEPA PROVISIONS

- Facilitation of Indonesian horticulture exports to Australia
- Opening of agriculture and agriculture services investment and MNP in Indonesia.

PROJECTS

- Establish Indonesia Australia Horticulture Partnership to build capacity of Indonesian producers to export and build supply chain capability.

Grains

IA-CEPA PROVISIONS

- Easing of restrictions on investment in agriculture and food investment in Indonesia, and movement of people to Indonesia.

PROJECTS

- Government support of industry-initiated projects to conduct joint research and development, build skills in value adding to grains and derivative products, and grow capacity in grains-based food processing and in building returns from grains and food value chains.

Skills

IA-CEPA PROVISIONS

- Easing of restrictions on Movement of Natural Persons to enable participation in Skills Exchange and related education and training, and capacity-building activities.

PROJECTS

- Agree, implement, monitor and scale-up Skills Exchange.

VET sector cooperation

IA-CEPA PROVISIONS

- Prioritise VET sector development in measures that support skills cooperation.

PROJECTS

- Design of a follow-on project to progress work to date on cooperative VET sector capacity-building.

Nurse and doctor training

IA-CEPA PROVISIONS

- Easing of restrictions on movement of people to enable training of health professionals by Australians in Indonesia and work by Indonesian health professionals in Australia
- Easing of restrictions on Australian investment in education and training in Indonesia to enable a comprehensive collaboration.

PROJECTS

- Facilitation by both governments of collaborative training of Indonesian nurses.

Recognition of qualifications

IA-CEPA PROVISIONS

- Include provisions to move towards mutual recognition of qualifications and to cooperate in development of internationally recognised frameworks.

PROJECTS

- In conjunction with Skill Exchange and/or VET sector cooperation, conduct an initial project to harmonise qualifications across priority occupations.

University cooperation

IA-CEPA PROVISIONS

- Easing of restrictions on investment in the university and allied training sectors
- Easing of restriction on movement of skilled people

PROJECTS

- Design of a coordinated and collaborative school to university transition approach
- Enhanced support for collaborative research.

Business visas

IA-CEPA PROVISIONS

- Immediate reform to business visa processes in Indonesia and Australia to create equivalency in applications for, and issuing of visas and to make it easy for businesspeople to enter multiple times and do business.

Indonesian skilled and seasonal workers to Australia

IA-CEPA PROVISIONS

- Easing of restrictions on MNP to Australia to enable movement of skilled and seasonal workers to Australia.

PROJECTS

- Implement Skills Exchange pilot
- Commission a study to examine what is needed to make seasonal worker movements feasible, and to design a pilot.

Australian professionals in Indonesia

IA-CEPA

- Ease MNP provisions to provide ease of entry and work for Australian businesspeople and professionals
- Establish visa-free entry for Australian businesspeople to Indonesia on short term visits, and make multi-entry business visas more readily obtainable (equivalency between Indonesia and Australia is the goal)
- Reintroduce a viable KITAS scheme to facilitate residency and work by Australian professionals and those employed.

Internships

IA-CEPA PROVISIONS

- Ensure that MNP and work permit provisions in Australia and Indonesia to enable movement of early career persons for training, internships and work experience assignments.

PROJECTS

- Implement Skills Exchange to apply to internships and similar activities.
- Establish expanded, two-way internships program supported by business and facilitated by governments.

Services

IA-CEPA PROVISIONS

- Services trade and investment liberalisation should be a priority for the IA-CEPA so as to greatly enhance the capability and scale of the sector in Indonesia and build strong services linkages with Australia.

Mining equipment, technology and services (METS)

IA-CEPA PROVISIONS

- Liberalise principal DNI and MNP restrictions on Australian METS providers

PROJECT

- Monitoring of outcomes of APEC-funded assessment of METS demand and supply in Indonesia and design of bilateral interventions to build the METS sector.

Energy and mineral resources

IA-CEPA PROVISIONS

- Identify energy and mineral resources as a priority sector for economic partnership.

PROJECTS

- Establish Indonesia as a primary partner for the new Australian-funded Australian Resources Development Hub.

Design, arts, culture and sport

IA-CEPA PROVISIONS

- Identify design, arts, culture and sport as sectors that should be included in the IA-CEPA as a 21st Century economic partnership agreement.

PROJECTS

- Undertake a design partnership and collaboration under Pre-Agreement Facility.

1 INTRODUCTION

This submission sets out the views of the Australia Indonesia Business Council (AIBC), on behalf of its members, on the aims, qualities and contents of the Indonesia Australia Comprehensive Economic Partnership Agreement (IA-CEPA). It is the first submission by AIBC to the Indonesia Australia Business Partnership Group and the revived IA-CEPA negotiation process in 2016. AIBC may make supplementary submissions to governments as negotiations proceed and as new information and proposals arise from its members.

The submission has been prepared to inform discussions of the Indonesia Australia Business Partnership Group (IA-BPG), which is meeting during June, July and August 2016 to update and revise its 2012 position paper. In formulating its advice, IA-BPG is considering trade and economic developments, and new thinking about the IA-CEPA. The submission is also made available to the Governments of Australia and Indonesia and business stakeholders.

The submission draws extensively on the views of stakeholders from business, government and the not for profit sector expressed in submissions, papers, public statements, media reports and personal comments. In particular, it reflects the outcomes of consultations that AIBC conducted with Australian business in May and June 2016.

This submission draws upon the positions in the 2012 IA-BPG Position Paper, almost all of which remains relevant and valid, and continues as a key reference for governments and the negotiators. The submission seeks to supplement the content of the 2012 paper with more recent input and new thinking, recognising the major economic changes being driven by Indonesia's President Joko Widodo. Indonesia continues to indicate its desire to change in order to attract greater business investment, to build infrastructure and to grow exports, and several initiatives are gaining traction.

In Australia, the end of the resource construction boom has given impetus to a new economic transition towards a more diverse economy, underpinned by knowledge and technology. Australia is focussed more than ever before on the economic engagement with Asia in general and Indonesia in particular.

There is growing realisation in both Indonesia and Australia of the complementarities of their economies and the gains to be shared through an economic partnership. The enthusiasm and commitment of the two Trade Ministers, Thomas Lembong and Steven Ciobo give AIBC confidence that the two governments are committed to driving great change in the economic relationship. The IA-CEPA will provide the platform for much greater engagement.

As the submission highlights, Indonesia and Australia have two very different economies that are at different stages of development. The two nations also have different cultures, including business cultures. Such differences will provide both challenges and opportunities. It is important for government and business in each nation to understand the situations, priorities and capacities of each nation and to negotiate an IA-CEPA that takes account of and addresses the differences. In particular, the IA-CEPA must seek to deliver, in each of its components, demonstrable benefits for both parties. Systems approaches that address the interdependent components of the economic relationship – trade, investment, movement of people and capacity-building – should be the most effective way of delivering balanced outcomes that are supported by all stakeholders and build trust.

This submission commences with AIBC's and its members' views on the aims, breadth and depth of the IA-CEPA, before moving to cross-cutting issues and sectoral provisions. It also highlights suggested early outcomes

2 CURRENT AND FUTURE ECONOMIC RELATIONSHIP

“Together, we’d be a powerhouse. If we can really draw into a close partnership, I think Australia and Indonesia would be unstoppable”

Indonesia’s Minister for Trade, Thomas Lembong, 17 March 2016

2.1 SEEKING TRANSFORMATIONAL CHANGE

The IA CEPA presents a unique opportunity for the two neighbours to agree on a comprehensive partnership to use the complementary nature of their two economies – people, skills, knowledge, technology and resources – to reap huge mutual benefit. The power of business to do well and deliver economic and community benefits at the same time is rarely presented with such an opportunity.

Indonesia and Australia are the two largest economies in the South East Asia – Oceania region. Together, they would be the ninth largest economy in the world. Indonesia is one of the fastest growing economies in the developing world (over the past decade third only to China and India in annual GDP growth), while Australia is the fastest growing OECD economy.

The bilateral trade and investment performance of the two economies greatly underperforms their potential, despite Indonesia and Australia being neighbours and despite their economic complementarities. The two economies are different in structure, typically reflecting their development status. Comparative and competitive advantages are different. Business and institutional cultures and capabilities are different. Business in each nation poorly understands opportunities in the other nation and how to do business there. Trust and confidence are in general low.

Nevertheless, and indeed in part due to differences, strong complementarities exist between the two economies¹. With complementary patterns of consumption, production, technologies and skills between Indonesia and Australia, and with the synergies that exist between the economies, there are lucrative opportunities for partnership to enhance economies in ways that either nation cannot do on its own.

AIBC believes that of all of Indonesia’s and Australia’s relationships, an economic partnership between them has the greatest potential for transformational change in bilateral ties. For Indonesia, Australia can work to meet crucial needs spanning agriculture to tourism, infrastructure to e-commerce. For Australia, Indonesia can open new avenues for growth using human resources, natural assets and the AEC as a springboard into Asia and the world beyond. When there is greater trade and investment, more partnerships, more people to people contact, the relationship will change for the better to one of mutual respect and greater cooperation towards achieving shared goals.

AIBC recommends that outcomes and impact criteria be set for the IA-CEPA and that continuous or periodic monitoring and evaluation be undertaken. Success of the IA-CEPA will be measured by the extent of removal of impediments to trade, investment and movement of people, by the amount of business the two nations do together and by working together, with other nations, and ultimately by the degree of economic integration between Indonesia and Australia.

AIBC aspires to a bilateral relationship like that shared between Australia and New Zealand.

2.2 NEED FOR CONTEMPORARY DATA AND ANALYSIS

Notwithstanding current understanding of some of the complementarities of the two economies, and the great enthusiasm for working together, there has been little contemporary analysis and there is poor common understanding of relative economic structures and performance and the synergies that can result. This knowledge gap is betrayed by some recent commentary and may inhibit innovative and bold thinking in the negotiations.

The feasibility study² and analysis of impacts³ conducted in 2007 and 2009 respectively appear to contain the most recent detailed analysis of the economies and their relativities.

*Succeeding Together*⁴, a report produced by the Australia Indonesia Centre with the support of PwC and ANZ, also provides new analysis and thinking about potential areas of cooperation between the two countries.

AIBC welcomes the commissioning by IA-BPG of analysis of Indonesia-Australia Economic Relations by Dr Kiki Verico, and under the supervision of Professor Anwar Nasution, both senior economists from the Faculty of Economics of the University of Indonesia, to provide updated and new data and analysis on the Indonesian and Australian economies and their complementarities that can inform IA-BPG positions and IA-CEPA negotiations. The analysis presented to IA-BPG to date has been high quality and provides new data.

AIBC holds the view that the analysis should also include discussion of how the two economies can benefit from the IA-CEPA and the trade and investment that it facilitates. For preference, revised economic analysis of the benefits and costs of the IA-CEPA to Indonesia and Australia should be commissioned, to update the impact study done in 2009.

As negotiations proceed, it may be advisable to commission a study or studies to examine the impact of proposed provisions in the IA-CEPA on sectors in Indonesia and Australia, and their economies. The Department of Economics at IPB contributed to previous modelling work on IA-CEPA. Such analysis is needed particularly in the light of the rapidly changing global trade landscape and changes in Indonesia-Australia trade and investment patterns – and their individual and joint economic relationships with other nations and regions.

2.3 ASPIRATIONS VERSUS REALITY

Business thrives in policy environments of continuous certainty. Politics exists in constant uncertainty. Politicians, with government officials, are tasked to provide certainty for businesses. The two are inextricably linked.

While there have been very positive statements from Ministers and business associations (including AIBC) about economic potential and the need to work together, the reality of large-scale investment by Australian companies may be trending otherwise. Several large Australian companies have recently expressed views that Indonesia is too uncertain and too difficult to be a priority for their investment. One Australian company that operates globally recently withdrew from a major project substantially for these reasons. The company will shift its Indonesia-earmarked funds to projects elsewhere, but Indonesia will lose critical investment and world-class expertise, as well as suffering reputational damage.

There is an urgent need for some investment success in Indonesia by Australian companies. This submission sets out a number of the conditions needed to achieve successful investment by companies large and small.

Indonesian trade and investment with Australia is inhibited in part by Indonesian perceptions of doing business in Australia, relative to the opportunities and costs of exploiting the opportunities that exist in the domestic marketplace and other offshore destinations. Some exporters view Australia as a small market with high entry costs. They may see Australian standards as difficult and costly to comply with, and differing from those in other, larger markets. They may see Australian visas as difficult to obtain and qualification requirements for Indonesian workers in Australia as overly strict and impenetrable. This submission identifies a number of inhibitors to Indonesian exports to, and investment in, Australia and sets out what is needed to overcome them.

2.4 ECONOMIES IN TRANSITION BUT STRUCTURES REMAIN

While global and regional trade and investment characteristics are changing rapidly, and the Indonesian and Australian economies are in transition, their essential economic structures remain. This needs to be understood, as do the trends. As its name implies, the IA-CEPA must be comprehensive and address all relevant sectors of each economy and of the two economies working together.

For example both economies remain highly dependent on primary production (mostly agriculture and mining), with knowledge and technology (including in supply chains) as key enablers of ongoing competitiveness in these sectors, as well as offering pathways to promising new sectors. Services is a mega-sector in which Australia is strong domestically, but is still growing its exports, while Indonesia needs to grow its services sector to enable its economic transition. Manufacturing in Indonesia is growing, driven by competitive labour costs, while commoditised manufacturing in Australia is shrinking in favour of niche manufacturing and services. Infrastructure is both an economic enabler and business opportunity. E-commerce is an end in itself in terms of an emerging business sector, but principally it is an enabler of economic activity.

Indonesia and Australia face competition from others in both traditional and emerging sectors, and have imperatives to continuously improve their productivity and competitiveness, in particular through lowering the costs of doing business.

More discussion on the economic structure and transformations of Indonesia and Australia is in section 4.5.

3 QUALITIES AND PROVISIONS OF THE IA-CEPA

The approach to consideration of provisions that emerged in AIBC-led stakeholder consultation forums includes:

1. Coherence: does the provision make sense to business, and make doing business easier?
2. Certainty: is the provision going to be implemented as intended, and will it last or will it change?
3. Costs and benefits: is the provision going to help business reduce costs and/or add value?
4. Accessibility: is each provision of the IA-CEPA accessible to business and will it be utilised?

3.1 A 21ST CENTURY AGREEMENT

AIBC strongly endorses the vision of the two Trade Ministers that the IA-CEPA should go beyond last generation trade agreements and address 21st Century opportunities and issues⁵. It should be a platform for a new, visionary partnership that is broader, more advanced, modern, and facilitative than a traditional FTA in all aspects of the economic relationship, as well as capacity building^{6 7 8}.

IA-CEPA will be unique compared to Indonesia's and Australia's free trade cooperation with other partner countries⁹. It should serve as a new platform toward a modern and dynamic economic partnership that reflects the strong bonds between the two countries¹⁰. It should broaden, deepen and maximise the potential of the economic relationship¹¹, mark a radical shift in trade and investment ties¹² and be a step change in business and economic relationships¹³. It should deliver benefits to both economies by rethinking fundamentals underpinning the existing commercial relationship¹⁴.

Importantly, given the patchy understanding and use of trade agreements by business in both countries, Australia and Indonesia have agreed that the IA-CEPA will be as easy-to-use and trade facilitative as possible¹⁵. Economic cooperation itself should be trade facilitative by building capacity to host trade and investment, enhancing institutional capacity, creating pathways for value chains and overcoming market failure¹⁶ through education of business and facilitation of linkages.

AIBC also suggests that an important start-point in the negotiation of IA-CEPA is to ask and answer the questions: "why do the current restrictions on bilateral trade and investment exist?"; "are they needed in the Indonesia – Australia relationship?"; "do they serve the interest of the consumer?"; "do they serve the interests of business as a whole?".

Considering the obvious differences and on-ground realities, there may be vulnerable sectors of each economy that need to be protected and/or need assistance to transition to more open markets?

To take that line of thinking several steps forward, can we stretch the boundaries of the negotiations and imagine the two countries interacting like Australia and New Zealand?

What would be the consequences of such a relationship?

How can businesses of all sizes across industry sectors in both countries engage with each other to reap shared benefits?

3.2 HIGH QUALITY AND COMPREHENSIVE

The IA-CEPA should be as high quality and as comprehensive as possible, covering trade in goods and services, investment, movement of people and economic cooperation¹⁷.

“In order to achieve mutual benefits, the IA-CEPA will be comprehensive in scope and will not only aim to enhance their economies, but also to facilitate the flow of goods, investment and services, by reducing trade barriers (tariffs, non-tariff and other behind the border measures), addressing investment measures which have the effect of impeding or preventing larger trade and investment flows, as well as enhancing technical and economic cooperation in specific sectors identified as key drivers of economic growth.”

Guiding Principles, 2013.

As well, other issues need to be addressed to facilitate trade and investment, including:

- Electronic commerce; competition policy; government procurement; intellectual property rights; environment; labour;
- Institutional and framework provisions (eg, transparency; dispute settlement procedures; institutional arrangements);
- Any other issues which take into account new and emerging issues relevant to business realities¹⁸;
- ‘Behind the borders’ barriers and inhibitors to trade, investment and movement of people.

Economic Cooperation is a key pillar of the IA-CEPA and needs to be considered alongside all other provisions, with activities activated in ways and timeframes that support both negotiation and implementation of IA-CEPA¹⁹.

The IA-CEPA should reflect more advanced commitments than the ASEAN-Australia New Zealand Free Trade Agreement (AANZFTA), including on goods²⁰. AIBC notes also that Indonesia has Developing Country Status (DCS) in the Australian System of Tariff Preferences (ASTP)²¹. The DCS preference already provides complete duty-free access on 172 tariff lines beyond Most Favoured Nation arrangements, includes wood, paper, and iron and steel products, and with the majority of tariff lines (597) with preferential treatment under the DCS category receiving a one percent tariff preference.

Notwithstanding this need for comprehensiveness, Minister Lembong has said that trade in goods has been widely covered in the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), so the focus can be elsewhere²². He nominated services and digital economy as key areas for trade cooperation.

“Both countries share the ambition that this agreement be more than a traditional FTA. It will be, by both name and desire, a broadening and deepening of the economic relationship. It will focus on areas such as services trade, e-commerce, investment and capacity building. These opportunities will be integral and in addition to our discussions on traditional FTA issues such as tariffs on agricultural and merchandise trade.”

Australian Minister for Trade and Investment, Hon. Steven Ciobo MP, 17 March 2016

"Following the developments and trends in the 21st century, the IA-CEPA focus will shift to the service sector and the digital economy. For that, Indonesia needs a lot of professionals in various fields," said Minister Lembong²³.

Others in Indonesia and Australia have nominated other sectors as priorities, including infrastructure planning, financing and delivery; education; labour; finance; agriculture; food processing; innovation; tourism; and health and aged care^{24 25}. The transfer and use of high technology in traditional sectors (eg, agriculture and mining) has also been identified as a priority^{26 27}. The high priority that President Joko Widodo has placed on infrastructure and marine connectivity is also noted.

While AIBC agrees with Minister Lembong about enhanced attention on services and the digital economy, there are many opportunities in traditional sectors. AIBC strongly recommends that IA-BPG continue to advocate a comprehensive approach to IA-CEPA, but with added emphasis on 'new economy' cooperation, such as in e-commerce, innovation systems and sophisticated services. Education and training should also have high priority, given the critical role of skills in both economies.

Cooperation in planning, financing and delivery of infrastructure in Indonesia needs also to be emphasised, given the Indonesian President's priority for better connectivity on land and sea, and given the economic imperative for efficient infrastructure to enable business.

3.3 OVERTLY PREFERENTIAL

3.3.1 A unique agreement with unique preferences

To work well to the benefit of Indonesia and Australia, the IA-CEPA should be unashamedly preferential, with both nations understanding that there are strong two-way benefits to be generated by giving each other preference in trade, investment, economic cooperation and movement of people.

Australia and Indonesia should provide each other with preferential status at a starting point of status offered to others, but each having a clear preference for trade, investment and collaboration with the other. Where possible, Indonesia and Australia should declare and activate trade and investment preferences that operate above other preferential arrangements.

Such preferences can be justified if the IA-CEPA meets the aspirations held for it by governments to be a unique *economic partnership* agreement that meets and delivers the qualities and provisions set out in this chapter.

3.3.2 Special Economic Zones

Indonesia's Special Economic Zones (SEZ), as currently identified and as may be identified in the future, could provide the venues for investment and collaboration unrestricted by regulation applied elsewhere in Indonesia. Proving the model in a SEZ may then provide the socialisation and impetus to roll it out elsewhere.

Minister Lembong has cited potential for Australian university investment in a SEZ. AIBC takes a very positive view of such proposals, but notes that many current SEZs are located well away from centres of population and therefore markets. Indonesia and Australia should discuss the creation of SEZs for specific purposes of cooperation in critical sectors such as education. AIBC notes that the Special Region of Yogyakarta contains the greatest concentration of academics, researchers,

students and education institutions in Indonesia²⁸ and therefore could be ideal for an education and research SEZ.

3.4 BALANCED, WITH MUTUAL BENEFITS

The IA-CEPA must be balanced, delivering mutual benefits to both economies²⁹ – a win-win partnership³⁰ based on progressing shared objectives of accelerating sustainable economic growth, growing high quality jobs and raising living standards^{31 32}. It should foster inclusive growth in both countries – including in regions³³. It should underpin a trade and investment relationship based on joint competitive advantage³⁴. It also needs to facilitate development of understanding and trust between Indonesian and Australian businesses.

IA-CEPA negotiations will seek to achieve comprehensive and balanced outcomes through undertaking parallel negotiations across all negotiating areas³⁵.

Comments have been made to IA-BPG members that some of the 2012 IA-BPG report recommendations could be interpreted as unbalanced and tilted towards Australian interests. Such perceptions need to be redressed in order to achieve an agreement that is lasting and generates enthusiastic support from business, government and community in both countries.

This could involve both countries (in particular Australia) offering to facilitate inward market development and supply chains, actively seeking and supporting imports from the other and in developing joint value chains. Examples of how this could occur include:

- Government and industry support for and facilitation of development of Indonesian (and particularly Eastern Indonesian) agricultural supply chains into Australia
- Support for joint development of a sophisticated mining equipment, technology and services (METS) sector in Indonesia to both provide the technology-intensive and knowledge-rich inputs for development of the mining industry and to develop METS as a new industry sector capable of exporting to the region and beyond.

3.5 BUILD ON EXISTING AGREEMENTS

The agreement should build upon existing multilateral (eg, WTO) and regional agreements (in particular AANZFTA) as well as negotiations to date between Indonesia and Australia^{36 37}. Both countries have agreed to provide to each other at least the outcomes in existing free trade agreements³⁸.

The provisions of the IA-CEPA should go beyond those of existing agreements and those currently in negotiation (eg, Regional Comprehensive Economic Partnership – RCEP), otherwise the rationale for the IA-CEPA is weakened³⁹.

The design and provisions of the IA-CEPA should also be designed in the context of other agreements that Indonesia and Australia have entered into or are negotiating, such as the Indonesia – Japan FTA, Indonesia – EU CEPA, Trans Pacific Partnership (TPP), China Australia FTA and Thailand Australia FTA. These agreements have strong implications and set precedents for IA-CEPA and should be both taken into account and drawn upon.

In some cases, existing or pending agreements may provide stepping-off points for the IA-CEPA and in others, the agreements may adequately cover provisions and these can be simply picked up by, adapted for, or referenced in the IA-CEPA.

Against the backdrop of President Joko Widodo's expressed desire to join the TPP and the current negotiation of RCEP, the IA-CEPA presents a rare opportunity for two very different neighbours to create a special relationship, to learn, prepare for, and make the most of these far-reaching regional bonds.

IA-CEPA should be used as an opportunity for Indonesia and Australia to work together to enable Indonesia to join and implement the provisions of the TPP – and to maximise benefits.

3.6 OPPORTUNITIES-DRIVEN AND INNOVATIVE

Traditional trade negotiations are conducted by some parties on a mercantilist basis of getting as much as possible from the other party while giving away as little as possible. However, as Australia has long recognised, and as this Indonesian Government has recently elucidated⁴⁰, the benefits of trade agreements flow as much from driving domestic reform through competition as from opening of markets to exports and investment. This can be true of IA-CEPA, with a large additional benefit: that through economic cooperation, the two economies working together can invigorate their economies, reaping business and economic benefits well in excess of what they could achieve on their own.

In some, or even many cases, the opportunities will arise from growing economic relationships that Indonesia and Australia each have with other economies. Both need to understand the relationships that the other has and the opportunities these present. The obvious relationships are with China and Japan, and less obviously, with Europe with which Indonesia and Australia both aspire to conclude economic partnerships.

In this light, and in the light of shared desires that the IA-CEPA should be a unique, 21st Century agreement, the negotiations should be conducted differently to other FTA negotiations. The discussions should be 'opportunities driven', with discussions centred and agreement reached around both traditional and innovative mechanisms for maximising opportunities and beneficial impact. The usual 'defensive' and 'offensive' modes of negotiation should be supplanted by negotiators identifying joint opportunities and seeking to maximize them.

3.6.1 Vibrancy, freshness and 'fun'

Opportunities also flow from IA-CEPA being an ambitious, non-traditional agreement⁴¹ that reflects the current and potential economic complementarities. Negotiators and advisors should take their cue from both Trade Ministers, who have used expressions such as 'vibrancy and freshness', 'imagination and verve', 'radical shift in our trade and investment ties', 'stunning complementarity', and 'massive opportunities'.

In this spirit, Minister Lembong also introduced an additional novel concept for negotiation of a trade agreement: it should be 'fun', and include initiatives that can build relationships and spark imagination. He and Minister Ciobo have proposed collaborations in fashion design and culinary activities.

AIBC endorses this approach and looks forward to participating in planning and implementation of 'fun' (but certainly not frivolous) activities as a way of facilitating people-to-people and business-to-business interactions that lead to much broader economic collaboration.

3.6.2 Opportunities from megatrends

Several mega-trends in international trade offer particular opportunities for the highly complementary economies of Indonesia and Australia:

- **Global value chains** where value is added at multiple locations to goods and services before they are delivered to customers
- **‘Servicification’ of *manufacturing*** where manufacturers, and even some primary producers, increasingly buy, produce, sell and export services embodied in and/or in addition to their goods
- **‘Servicification’ of *trade***, where trade in services themselves is growing faster than trade in goods – particularly in Asia – and services make up increasing proportions of the value of goods
- **Movement of skilled people** between economies as vital vectors for transfer of knowledge and technology.

Indonesia and Australia should embrace these trends within domestic policies and the design of the IA-CEPA in order to take the opportunities that they present and not be left behind. Both economies can achieve much more through working together than separately.

The IA-BPG 2012 position paper recognised opportunities delivered by some of these trends in discussing opportunities-driven partnerships (see Box 1).

3.6.3 Trade surpluses and deficits less relevant

Some concerns have been expressed by Indonesian stakeholders at the current trade deficit with Australia⁴². It should be recognised that in the new world of 21st Century economic relationships, trade deficits may not be a bad thing, or example if the deficit is influenced by imports of raw materials or intermediate products that are value-added and then exported in manufactured goods to other markets. This is discussed further in sections that address the opportunities for accessing global value chains.

Box 1: Opportunities-driven partnerships

In line with this ‘opportunities-driven’ theme and the IA-CEPA scope, and given the complementary patterns of consumption and production between Indonesia and Australia, the IA-BPG identified the following key areas for partnership opportunities:

Developing cross-border, integrated industries and value chains to supply both domestic and third-country markets through harmonising standards and regulations; facilitating joint ventures and business licensing; building robust logistics and supply chains; and building education, training and professional development.

Enabling greater sharing of knowledge and technology, and opening up business opportunities through harmonising standards and regulations; recognising qualifications; recognising intellectual property rights; establishing dispute resolution mechanisms; building education, training and professional development cooperation; facilitating joint ventures and business licensing; and encouraging movement of skilled people between the two countries.

Facilitating economic cooperation through an enhanced program of development assistance that is focused on building economic capacity, developing skills, sharing market information, enabling market access, facilitating development of value chains, building local businesses and enhancing cooperation between government development assistance activities and the private sector.

Building two-way investment by developing competitive markets, lowering barriers, reducing risks and promoting investment opportunities, including joint ventures.

- From IA-BPG Position Paper 2012

As suggested earlier, more current analysis than is currently available of current trade and investment, trends and impacts will inform cooperative and innovative negotiation of outcomes that will meet the high expectations of stakeholders.

3.7 DYNAMIC AND FLEXIBLE

AIBC endorses the 2012 IA-BPG position that the IA-CEPA should be a dynamic, living and growing process⁴³, not simply 'agree and implement'. Even before the IA-CEPA is fully agreed, some of its measures can be implemented (see section 3.9 and chapter 5).

IA-CEPA can also be expanded and adapted over time. The IA-CEPA should include provisions for flexibility that will take into account development issues and ensure that the overall IA-CEPA is development oriented⁴⁴. Discussion on the economic cooperation components of the IA-CEPA is set out in the next section and elsewhere in this submission.

The terms of the IA-CEPA will be subject to periodic review so as to facilitate revision of the terms of the agreement to take into account developments in both countries, the broader bilateral partnership and international developments^{45 46}.

IA-CEPA should include mechanisms for stakeholder input both during initial negotiations and in ongoing discussions^{47 48}, plus in monitoring of implementation, outputs, impacts and overall effectiveness.

Ongoing joint business monitoring of implementation and input for new provisions should be provided by IA-BPG and its members, with ongoing financial support from governments⁴⁹ and business.

3.8 DEVELOPMENT ORIENTATION AND ECONOMIC COOPERATION

Capacity-building via 'economic cooperation' is a key for transition of the economic relationship so as to enable both countries to meet the provisions of IA-CEPA, for business to be able to engage more fully in trade and investment, and for the benefits to flow equitably between economies, and to sub-national regions. The IA-CEPA therefore has economic and technical cooperation at its core⁵⁰ and the agreement will contain an Economic Cooperation chapter.

Indonesia and Australia already have an extensive development assistance program, with an annual budget (2016-17) of around AU\$300 million managed by DFAT, plus another AU\$65 million managed by other organisations such as the World Bank and Asian Development Bank.

The economic cooperation component of the *Australian Aid Investment Plan, Indonesia, 2015/16 to 2018/19*⁵¹ is summarised in Box 2. The Plan's objectives and priorities align well with those of the IA-CEPA.

AIBC endorses the Aid Investment Plan, but suggests that it will need to be modified and/or extended to give best effect to IA-CEPA.

Just as the IA-CEPA will be innovative and fresh, economic cooperation activities that spring from it should be conducted differently to development assistance that has gone before. AIBC recommends that the Economic Cooperation chapter and the capacity-building activities that flow should seek to move to a new level of collaboration and a true partnership in resourcing and governance.

IA-BPG agreed in June 2016 that current and recent development assistance activities, outcomes and impacts that are relevant to the IA-CEPA need to be documented to inform stakeholders.

Different initiatives have to have different amounts of information about them in the public arena. There should be consistent and high levels of transparency about development cooperation activities.

Current and recent Indonesia-Australia development assistance activities that focus on economic development include:

- The long-running *Australia Indonesia Partnership for Economic Governance* (AIPEG, which AIBC notes has minimal [public documentation](#))
- AIPEG's support for the *Indonesian Services Dialogue* (details [here](#)) and
- The *Indonesia Infrastructure Initiative* (IndII, which is [well documented](#) in both English and Indonesian languages).
- A newer example is the Indonesia-Australia Partnership on Food Security (which has issued detailed communiqués after meetings – the most recent [here](#)).

AIBC agrees that in designing and implementing the IA-CEPA, due consideration should be given to the different levels of development of the two countries. The IA-CEPA should therefore include provisions for flexibility that will take into account development issues so that the overall IA-CEPA is development oriented⁵².

AIBC also agrees that the nature of IA-CEPA commitments, including differentiated timeframes, should be addressed at an early stage of the negotiations⁵³.

AIBC notes with approval that negotiations on the Economic Cooperation component of IA-CEPA will be conducted simultaneously with the negotiation of other provisions in order to incorporate or accommodate inputs which are derived from the negotiations of other areas⁵⁴.

The IA-CEPA Pre-Agreement Facility, established to support the IA-CEPA negotiations, will be used to fund jointly agreed economic cooperation activities undertaken during the course of the negotiations⁵⁵. The Pre-Agreement Facility is a useful tool for facilitation of negotiations but is not a substitute for the IA-CEPA Economic Cooperation pillar. Economic Cooperation activities need to be more substantial and better-resourced over longer timeframes.

AIBC also holds strongly that adequate and timely design and financial provisioning of agreed Economic Cooperation activities is essential to the integrity of negotiations, initial activities and delivery of the IA-CEPA. That will require early agreement on a principles and a protocol for activity design, financing, delivery, and monitoring and evaluation⁵⁶.

Further, Economic Cooperation activities should include substantial new initiatives as well as current or extended activities. To be a credible pillar of the IA-CEPA, Economic Cooperation needs to extend well beyond rebranding of current activities, valuable though they are.

There are a number of new capacity-building proposals of which AIBC is aware, including for:

- Agriculture and food value chain training and capacity-building in grains and derivative products
- Cooperative projects to build mining and METS governance and capacity in APEC economies, supported by the APEC Mining Sub Fund
- Continuation of collaboration with the Indonesian Ministry of Energy and Mineral Resources in building capacity in mining governance
- A Trade Facilitation Centre of Excellence, based in Jakarta, which would be a collaboration between an Indonesian university and an Australian university.

Several proposals include provision for close industry participation and funding support. No doubt other proposals will be put forward as IA-CEPA discussions progress, including by the Government of Indonesia and Indonesian business.

Box 2: Highlights of Australian Aid Investment Plan, Indonesia, 2015/16 to 2018/19

The goal of Australia's development program is to partner with Indonesia *to boost inclusive growth and productive jobs by improving Indonesia's competitiveness through strengthening the impact of Indonesia's own resources.*

Three objectives below contribute to achieving this goal. Gender equality, inclusion of people with disabilities, and rural development programs are cross-cutting.

1. Effective economic institutions and infrastructure

Economic governance investments to support Indonesia to boost inclusive growth, productive jobs, private sector investment, and increased levels of trade by improving its policy and regulatory settings. Promote productivity-enhancing reforms such as financial sector stability, revenue mobilisation, and improved budget execution. Technical assistance focuses on areas such as financial sector supervision and regulation, revenue collection, budgeting, macroeconomic management, and providing a supportive trade and investment climate. Tackle underlying disincentives to investment in infrastructure, particularly by the private sector. In agriculture, strengthen the operation of agricultural markets, improve food security, raise agricultural productivity, and helping to boost poor farmer's incomes and employment.

2. Human development for a productive and healthy society

Develop human capital to improve the productivity and mobility of Indonesia's labour force. Help catalyse systemic change to provide better quality health and education services to local communities. Work at the national level to support policy-makers and at the sub-national level to improve service quality and governance systems. Support efforts to improve the mobility of the workforce through improving the quality of education and workforce skills. Target and streamline scholarships program, including both advanced degree study and professional development short courses..

3. An inclusive society through effective governance.

Use evidence and analysis to inform policy development. Investment in the knowledge sector to help Indonesia to develop the government, private sector, and civil society organisations that provide analysis for policy makers. Respond to Indonesian priorities, providing world class international and Indonesian expertise to advise on policy and implementation. Focus on policies to better target poverty programs, reform labour legislation and promote greater labour market flexibility and mobility.

AIBC proposes that the IA-CEPA negotiation process should take stock of all current and proposed future Economic Cooperation activities and assess them for prioritisation within both the Economic Cooperation stream of IA-CEPA and the wider Australian Aid program with Indonesia. Of course, the two must be very closely aligned.

3.9 EARLY OUTCOMES

In 2012, IA-BPG recommended delivery of early outcomes from the negotiation of the IA-CEPA⁵⁷. This recommendation was echoed in the 2013 Guiding Principles for the IA-CEPA and in 2016 in statements by Trade Ministers.

Agreement and delivery of early outcomes are fundamental to the design and success of IA-CEPA. These fall into two categories:

- *Provisions* within the IA-CEPA that can be agreed and implemented early (eg, enhanced provisions for movement of people, lifting of certain services trade restrictions)
- *Projects* that are supported by the IA-CEPA to build capacity, strengthen relationships and demonstrate cooperation models (eg, current food security partnership, proposed skills exchange).

Early outcomes will help to demonstrate what is possible, build business engagement and smooth the path for agreement of other provisions and projects⁵⁸. They can be used to socialise other proposals for the IA-CEPA within government, the private sector and the community.

Possible early outcomes identified by the Chief Negotiators include in agriculture and food, skills, financial services, professional services, movement of natural persons, design and fashion, tourism and hospitality, infrastructure and education⁵⁹. Most of these are discussed in Chapter 5 of this submission.

3.9.1 Opportunities and initiatives.

In view of the non-traditional nature of this agreement, and as noted earlier, Minister Lembong said that early work should look at early ‘fun’ initiatives with high symbolic value – eg, in fashion design and culinary – to boost confidence and ‘warm the tone of the dialogue’^{60 61}. AIBC endorses the Minister’s call.

3.10 STRONG AND ONGOING STAKEHOLDER ENGAGEMENT AND INPUT

3.10.1 Business engagement during negotiation and in implementation

A key focus of the IA-CEPA and its implementation will be facilitation of business linkages. Without strong and successful engagement of business in doing business, the IA-CEPA will fail to achieve its objectives. The 2012 IA-BPG Position Paper discussed priorities to achieve this on pages 39 and 40 and included seven recommendations, which remain valid.

Close collaboration between business communities of Indonesia and Australia in scoping and design of the IA-CEPA is key to the agreement’s success – in design to meet needs, facilitating negotiations, engagement of business, and effectiveness in utilising its provisions to do more business between the nations^{62 63}. Governments are commended for their commitment to strong business engagement from the outset of negotiations.

The IA-BPG process is ground-breaking for both Indonesian and Australian business. The 2012 IA-BPG process and report was the first time that business in each country has reached a bilateral position on a trade agreement with business from another economy.

AIBC agrees that consultation and implementation must engage small, medium and large enterprises⁶⁴. AIBC also agrees with Minister Lembong that there is a need to socialise to “our respective peoples, our respective businesses, our respective small and medium sized enterprises”⁶⁵. AIBC believes that in addition to the necessary engagement of business enterprises, their sectoral and overarching business associations also need to be engaged closely. This must occur both during negotiation and in implementation of the IA-CEPA so as to maximise buy-in from enterprises and their business associations, and their leveraging of the IA-CEPA.

3.10.2 Overcoming information deficits and market failure

The IA-CEPA needs measures to tackle poor information availability and market failure that have played strong parts in the underperformance of the economic relationship⁶⁶. AIBC is also aware of patchy take-up by Australian business of opportunities generated by recent bilateral FTAs. Therefore the IA-CEPA needs to include components for marketing and business facilitation that are stronger than any previous activities implemented by Indonesia or Australia. As negotiations progress and progressive agreement is reached, an education campaign needs to be run on benefits and opportunities to businesses⁶⁷.

3.10.3 Active business facilitation

Following the agreement – and including progressive agreement of ‘early harvest’ initiatives – there must be very active marketing and business facilitation activities implemented to engage with business and to encourage and enable them to leverage the opportunities unlocked by IA-CEPA. In particular, there is a need for increased education and support of SMEs in Australia and Indonesia that wish to trade bilaterally and participate in global value chains. Business facilitation should be undertaken by governments in partnership with business associations.

Facilitation should extend well beyond provision of information on market opportunities and guides on doing business. The 2012 IA-BPG report proposed “organised and systematic business forums facilitated by government with the involvement of business associations. Such measures would further stimulate the interest of Indonesian businesses to enter the Australian market and vice versa”.

In 2016, as in 2012, Australian businesspeople consulted by AIBC have requested to be better informed of the opportunities for investment and of the regulatory environment in Indonesia through sector/group discussion sessions, business-get-business activities, seminars and tailored publications.

AIBC proposes that business facilitation activities could be arranged by an ongoing Indonesia Australia Business Partnership Group that would be a powerful bilateral coordination and promotion mechanism. It could be co-resourced by governments and business organisations.

3.11 SCOPE AND COVERAGE

AIBC endorses the comprehensive scope and coverage of the IA-CEPA, which is best summarised in the Guiding Principles document agreed by negotiators in 2013:

“The Scope and Coverage of the negotiations will be as follows (areas may be modified by mutual consent):

- Economic Cooperation
- Trade in Goods
- Trade in Services
- Investment
- Movement of Natural Persons
- Other issues (Electronic Commerce; Competition Policy; Government Procurement; Intellectual Property Rights; Environment; Labour and any other issues which take into account new and emerging issues relevant to business realities)
- Institutional and Framework Provisions (Transparency; General Provisions and Exceptions; Institutional Provisions; Dispute Settlement Procedures; Final Provisions).”⁶⁸

It is noteworthy that Economic Cooperation has been listed first, and that Investment and Movement of Natural Persons have been highlighted by listing separately to Trade and Trade in Services respectively.

This scope is consistent with the 2012 position of IA-BPG for a comprehensive IA-CEPA. AIBC believes, however, that the Scope and Coverage and the rest of the 2013 Guiding Principles do not fully convey the current aspiration of stakeholders, including Ministers, that the IA-CEPA will be a 21st Century agreement that is different from traditional FTAs. Governments should consider how to supplement the 2013 documents to acknowledge the shifts in sentiment.

Minister Lembong has said that IA-CEPA should focus on the sectors that are very significant for both countries such as financial services, education services and employment services such as job placement for nurses and care givers, plus seasonal workers such as fruit pickers⁶⁹. AIBC believes that this can be interpreted as part of the focus for early outcomes, rather than for the IA-CEPA as a whole.

4 CROSS-CUTTING ISSUES AND MECHANISMS

4.1 OVERVIEW

Indonesia aims to enter the world's top 40 in ease of doing business⁷⁰, with measures including deregulation, streamlining approvals and opening up trade and investment⁷¹. Australia is currently ranked at 13 but needs to continue to reform its economic environment to sustain, or preferably improve, its position.

4.1.1 Cross-cutting measures identified in 2012

In its 2012 position paper, IA-BPG set out a comprehensive list of cross-cutting measures recommended for the IA-CEPA to overcome impediments to trade and investment. Several of these measures also work to enhance the domestic business environment. The actions identified by the IA-BPG in 2012 included:

1. Reducing all tariffs to zero for all tariff lines on entry into force
2. Removing all product quotas on entry into force, with progressive removal in agreed priority areas
3. Removing all capital thresholds for business start ups
4. Removing all limits to equity holding in all businesses by nationals or companies from the IA-CEPA partners providing this meets the national interest test as overseen by the foreign investment review board or equivalent against transparent criteria
5. Allowing full and free movement of skilled people between Indonesia and Australia
6. Providing mutual recognition of educational and skill levels against international standards
7. Encouraging improved mutual cultural and language understanding through inclusion in school curriculums
8. Tailoring development assistance to facilitate these actions and provide the capacity in Indonesia to implement rapid economic development
9. To the extent possible, measures should be aimed at mutual cooperation and collaboration to access global supply chains and service provision
10. Engage SMEs in regional areas to better enable them to access markets and reap benefits.

Details of these recommendations are in the 2012 IA-BPG position paper. They include several recommendations for economic cooperation activities. AIBC believes that all of these actions remain most relevant.

4.1.2 Additional cross-cutting measures in 2016

In light of changes and experience of the past four years, AIBC recommends that for 2016, the following actions should be added to the 2012 actions:

1. Removing restrictions on trade and investment in the services sector
2. Progressive removal of product quotas in agreed priority areas, notably in agriculture

3. Building a harmonised, borderless system for conduct and regulation of e-commerce
4. Reintroduce the ability of companies to conduct business in a range of currencies within Indonesia as occurs in Australia
5. Creating a consistent set of fees and levies domestically that are WTO compliant and transparent
6. Closer cooperation in skills development through education, training and professional development
7. Build and strengthen administrative and regulatory institutions and their understanding of each other's policies, regulations and negotiation and dispute resolution norms through better Indonesia-Australia linkages and capacity-building
8. Introduce strong, business-facilitative competition policy to encourage development of markets, efficient allocation of resources and markets that participants trust
9. Active facilitation of business-to-business linkages and of supply chain development.

4.2 ACCESSING GLOBAL VALUE CHAINS

The IA-BPG in 2012 identified participation in global value chains as a priority objective. As noted earlier, development of global value chains is one of the mega-trends in trade, particularly in the Asian region. Increasingly, value is added to goods and services at multiple locations before being delivered to customers. Typically, modes of value addition occur in locations that possess comparative advantages to other locations to enable competitive production and distribution. As discussed elsewhere in this submission, Australia and Indonesia have highly complementary economies.

Therefore, developing cross-border, integrated industries and value chains to supply both domestic and third-country markets should be a high priority for business and for facilitation through the IA-CEPA⁷².

Taking the opportunities presented by global value chains and other mega-trends requires changes to ways governments and industry think and act. In manufacturing and primary production for example, governments still have an important role to play to facilitate the trade of goods. The changing nature of manufacturing and some primary production requires realignment of policy and effort.

The traditional differentiation in policymaking and negotiation between trade in goods and trade services, and between trade and investment, and between imports and exports, means that in trade language, *offensive and defensive interests* are largely outdated.

The changed situation is at its most stark when governments still seek to restrict imports of goods and services inputs to manufacturing, thereby harming the ability of manufacturers to be competitive in both domestic and export markets.

Further discussion of opportunities in global value chains is set out in the following sections.

4.3 EXCHANGE OF KNOWLEDGE AND TECHNOLOGY

Alongside global value chains, this submission highlights the mega trends of ‘servicification’ of manufacturing and trade, with services both having value themselves and adding value to goods. Embedded knowledge and technology is becoming increasingly important in production and trade of goods and services. Indonesia and Australia both have much to gain from enhanced sharing of knowledge and technology⁷³.

Australia and Indonesia have much knowledge to share in environmental management, mitigation of greenhouse gas emissions and adaptation to climate change.

The IA-CEPA should facilitate exchange of knowledge and technology in multiple ways, including more free movement of skilled people – the principal vector for knowledge exchange – removal of other restrictions on trade and investment in services, in education and training, and in collaboration on research and development. Section 5.7 about services provides more detail.

4.4 TAPPING COMPARATIVE ADVANTAGES

The *Succeeding Together* study⁷⁴, released in November 2015 by the Australia Indonesia Centre, ANZ and PwC, proposes that Indonesia and Australia should seek to create shared benefit by combining comparative advantages, creating competitive advantages (see Box 3), and selling into both domestic and third party markets. The report says:

“Indonesia and Australia can enhance shared benefits by rethinking some of the fundamentals underpinning the existing commercial relationship. Importantly, the shared benefits can be achieved by combining emerging complementary comparative advantages to create competitive advantages. Together, the aim of these joint competitive advantages will be to capture the growing opportunities presented by shifts in global supply chains.

For Indonesia, these shifts could potentially stimulate a second manufacturing revolution akin to that experienced in the late 1980s when the newly industrialised economies of north Asia moved their manufacturing capacity south.

For Australia, the shifts present opportunities for adding value to physical, biological, intellectual and service-rich resources.

In short, these shifts are highly favourable to those strategic partnerships that show characteristics beyond traditional modes of two-way bilateral trade.”

Succeeding Together stresses the urgency of taking the initiative, making an “immediate call to action”, which it says is needed for three reasons:

1. Global supply chains are a fundamental dynamic of international trade and neither country can afford to operate exclusively outside of these.
2. Asia is the dominant global economic hub, the axis of which is moving south east towards the immediate region. Opportunities surround Indonesia and Australia now, but these will be captured by other countries if there is no action.
3. While both countries seek to consolidate and strengthen domestic economic security to varying degrees, both are also acutely aware of the opportunities presented by an emerging generation of entrepreneurs keen to capture global returns.

These arguments align with the position of AIBC.

The *Succeeding Together* report examines projected advantages of Indonesia and Australia (see Box 4). It then focuses on the following case studies:

- Two Indonesian sectors that have a comparative advantage over Australia:
 - Textiles/Fashion
 - Food-Processing.
- Two Australian sectors that have a comparative advantage over Indonesia, including:
 - Logistics.
 - Animal Products.

These sectors were chosen based on existing comparative advantage, capacity for both countries to achieve joint competitive advantages, and potential for tapping markets via regional and global value chains.

Box 3: Comparative and joint competitive advantages

Comparative advantage occurs when an economy can produce goods more efficiently (or at a lower opportunity cost) than its competitors. Australia and Indonesia have historically had a comparative advantage in producing animal, vegetable and food products as well as minerals and fuels. Australia's strongest comparative advantage is in minerals (iron ore) followed by animal products (beef and mutton); while Indonesia's strongest comparative advantage is in footwear followed by vegetable products (palm oil) and coal.

Joint competitive advantage emerges when comparative advantages can be combined in ways that enable the partnership to work together to compete and win market share over competitors. Implicit in this is finding or creating synergies in the process of combining the advantages so that competitiveness is enhanced.

Competitive and comparative advantage can change over time. For example, as some countries have transformed their economies from low to middle to high income levels, they have conceded some advantages such as low labour costs while gaining others such as sophisticated knowledge and technology. Because this is a forward looking report, it deals with the important distinction between static and dynamic comparative advantage

- From *Succeeding Together* 2015

Box 4: Projected advantages

Indonesia

- Industries serving and supporting regional production chains for which Indonesia will initially supply raw materials.
- Should structural reforms and transformations and infrastructure investments be successful:
 - Agro-industrial production for export and domestic market
 - Consumer products and production equipment
 - Using the textile sector as a launching pad for simply and elaborately transformed manufacturing
 - Regional automobile sector (production, design, assembly)

Australia

- Services in which Australia has a comparative advantage such as
 - Health
 - Education
 - Agro-processing
 - Logistics
- Liquefied natural gas
- Animal products

From *Succeeding Together* 2015

Succeeding Together says, citing the 2012 IA-BPG paper:

Efforts are required to grasp the multi-trillion dollar opportunity for both Australia and Indonesia, to avoid the adoption of protectionist policies that can undermine long-term economic growth. Greater bilateral cooperation and stronger economic integration is essential to improve current trade and investment patterns.

Additionally, economic cooperation is required to develop cross-border integrated industries and value chains in both goods and services that use the comparative advantages of each economy to supply domestic and third markets. These can be achieved by a variety of broad steps that can help both economies tap into larger regional and global value chains.

Succeeding Together then goes on to detail the steps necessary to progress the relationship towards greater economic integration. In summary they are:

- **Step 1:** Favour a new approach to trade and investment.
- **Step 2:** Create a better business and investment environment – simplify regulatory procedures and remove duplications.
- **Step 3:** Improve infrastructure – identify and develop ‘gateway’ infrastructure projects, cooperate to expand the scope of infrastructure initiatives and leverage broader regional efforts.
- **Step 4:** Build skills and capacity requirements – reconcile required skills with education providers, upskill the existing labour forces, collaborate with international counterparts, exchange knowledge and ease visa requirements for skilled workers.
- **Step 5:** Empower business – share market information, cooperate to approach third markets together and collaborate to develop new products for domestic or third markets.

The approach advocated by *Succeeding Together* aligns with and further develops the approach advocated by IA-BPG in 2012. AIBC congratulates the authors and endorses the report wholeheartedly.

4.5 SUPPORTING ECONOMIC TRANSFORMATION

As noted earlier, the economies of Indonesia and Australia are in transition. Indonesia is both growing and transforming. Services and manufacturing are making up an increasing proportion of the economy, and primary production (agriculture, mining^a and forestry) are declining in relative terms, though in nominal terms, they can be expected to continue to grow. Economic growth in Indonesia has been driven traditionally by primary production and domestic consumption, and less by exports than other nations. Inward investment and exports are becoming increasingly important as growth drivers and need to increase substantially if Indonesia is to again approach growth rates of close to 7 percent needed to make real inroads into poverty reduction and regional growth.

In order to meet its growth needs and aspirations, Indonesia needs multiple inputs, including:

- Infrastructure to support business, economic activities and communities
- Connectivity to link the archipelago efficiently and reduce business costs

^a In line with definitions used by statistics agencies, mining includes exploration for deposits of minerals, coal, oil and gas, and development and operation of extraction and primary processing.

- Education and training to activate the demographic dividend and support business and governance
- Raw material and semi-finished goods, plus services to underpin industrial and service sector growth
- Knowledge and technology to help transform traditional sectors (eg mining, agriculture and manufacturing) and enable emerging sectors (eg knowledge intensive services, digital economy)
- Economic reforms to create a more competitive business environment that is conducive to investment
- Strong institutions to inform and facilitate good governance, economic reform, competition policy and corporate standards, such as (respectively) Indonesia's KPK and Australia's Productivity Commission, Australian Competition and Consumer Commission (ACCC), and Australian Securities Exchange (ASX) and Australian Securities and Investments Commission (ASIC).

Australia is also in transition from an economy driven by mining investment and extraction, plus agriculture and manufacturing, to a more diverse economy underpinned by services, knowledge and technology. This will encompass highly efficient mining and agriculture, niche manufacturing and services – both domestic and traded. Services will rise as a proportion of the Australian economy and of exports, both as services themselves and as embodied in goods. Australia will be a strong player in global value chains, having being globally competitive in producing primary products, in niche manufacture, in key services and in education and research. While Australia is a highly export-exposed nation in goods, its services industries, with some exceptions, have underperformed in exports. Services exports are now rising, in line with global and regional trade trends.

Australia is also seeking to develop its under-populated and under-developed North⁷⁵, much of which is closer to large cities in Indonesia than to the major cities of Australia.

The major restriction to economic transformation, growth in knowledge-intensive services and development of Northern Australia is likely to be lack of skilled workers⁷⁶.

In order to meet its transformation aspirations, Australia needs multiple inputs, including:

- Infrastructure to support business, economic activities and communities
- Connectivity to make cities and domestic supply chains work more efficiently and reduce business costs
- Further enhanced education and training, plus skilled migration to meet the skills needs of business and the transforming economy
- Ongoing economic reforms to continue to enhance the environment for investment and doing business
- Better linkages with Asia and largely through Asia, the rest of the world
- Genuine partnerships with economies such as Indonesia that have highly complementary advantages.

So, the two economies face both similar and complementary opportunities and challenges. Not only have Indonesia and Australia the potential to gain much by working as partners, but they have an urgent imperative to do so if they are going to achieve what their leaders and people aspire to. The IA-CEPA should therefore actively support economic transformation of both economies.

4.6 COMPETITION POLICY AND ECONOMIC REFORM

In order to achieve economic transformation discussed in section 4.5, ongoing, thorough and vigorous implementation of competition policy is a vital component of reforms to both the Indonesian and Australian economies that are necessary to attract investment, facilitate business and underpin economic growth.

As the 2012 IA-BPG paper identified, benefits may include better prices and variety of products for consumers, protection for businesses from corrupt, unfair or anti-competitive practices, better quality products through increased research, development and innovation, increased product safety, and truthfulness in product claims.

In the 2016 context, effective competition policy is vital to development of trusted markets in sectors where large amounts of private sector investment is needed, such as in infrastructure and services in ports, electricity, and transport.

As noted in section 4.1 and 4.5, strong institutions are needed as well as strong policies and regulation to ensure that markets are well designed and operate efficiently. Capacity building within Indonesian agencies involved in market design and competition regulation, can be undertaken through cooperation with Australian competition agencies (eg, ACCC) and through access to high level Australian services capabilities in these fields.

4.7 ECONOMIC COOPERATION

The 2012 IA-BPG Position Paper advocated facilitation of economic cooperation through an *enhanced* program of development assistance⁷⁷. The two governments' Guiding Principles document and statements by Ministers also envisage development-oriented Economic Cooperation as a key pillar of the IA-CEPA.

AIBC is pleased to note that the Australian Government's *Aid Investment Plan Indonesia: 2015/16 to 2018/19*, which has been agreed with the Indonesian Government, seeks to target fundamental constraints to Indonesia's growth and poverty reduction, where Australia can add most value. The development assistance program has been adapted to strengthen initiatives that directly support economic growth. Expenditure on economic governance programs is doubling as a proportion of program spending. Support for infrastructure development and management has a high priority and will leverage infrastructure spending by Indonesia as well as improving the quality of all infrastructure projects. The Australian Government has also committed to a focus on private sector development in all aid investments.

As stated earlier in this submission, the IA-CEPA Economic Cooperation program and its development assistance components must be substantial and delivered over extended timeframes. While recent and current economic cooperation activities have delivered strong benefits and remain relevant and valid, the Economic Cooperation pillar must be substantially *additional* to current Indonesia-Australia economic governance and infrastructure activities, including those funded under the Pre-Agreement Facility and must also:

- Reflect the priorities identified by negotiators (informed by business and government) for the IA-CEPA
- Support the implementation of IA-CEPA and its effectiveness in achieving its aims
- Be designed, implemented and delivered expeditiously to meet stakeholder timeframes
- Be resourced by both governments as well as the private sector with either cash or in-kind
- Align with Australia's *Aid Investment Plan Indonesia* and vice versa.

4.8 LEGAL CERTAINTY AND DISPUTE RESOLUTION

On any objective analysis, Indonesia should be a much more favourable place to invest than the actual level of current investment indicates. As discussed earlier in this submission, one of the impediments to Australian trade and investment in Indonesia are perceptions that Indonesia is a commercially risky place to engage in business and invest.

Effective dispute resolution is one of the keys to encouraging parties to engage in trade and investment. In any commercial or trading relationship such mechanisms are of tremendous mutual benefit to both foreign and Indonesian firms. The rationale is that the more financially secure investors feel, the more likely they are to engage in trade and investment in Indonesia.

The 2012 IA-BPG Position Paper discussed the need for greater legal certainty and a mechanism for dispute resolution. This section of the 2012 paper remains highly relevant to the IA-CEPA and the new IA-BPG position paper, and continues to be endorsed by AIBC.

In 2012, the IA-BPG also identified two major legal deterrents to foreign investment in Indonesia: inefficiency in the court system and corruption. One of the concerns of prospective investors is a belief among some of them that trade or commercial disputes in Indonesia are overwhelmingly likely to have an unfavourable outcome for any foreigner.

In terms of adversarial proceedings in Indonesia, there is a perception that in the event of an adjudicated dispute the result is unlikely to favour the foreigner, and that even if it does, the legal system will not effectively permit that party to get the financial result they want in a practical sense. Such concerns are not confined to foreigners. Many Indonesians share exactly the same concerns with respect to the protection of their own commercial rights and interests.

In the "Doing Business 2016" data for Indonesia put out by the World Bank Group it was rated 170th under the category "Enforcing Contracts". By way of comparison, Australia was 4th in the same category. In the subcategory "Quality of Judicial Processes Index" which looked at administrative and procedural structure in the courts, Indonesia scored 6.5/18 (Australia 15.5/18).

It is for these reasons that many commercial contracts for activities in Indonesia are concluded in Singapore, with Singaporean dispute resolution mechanisms specified.

There is a need to establish fair, transparent, timely and effective procedures to facilitate settlement of commercial disputes, especially in Indonesia as judicial processes are perceived as being more prone to corruption. They must be efficient and enforceable.

It would very much assist building of confidence and trust between Australian and Indonesian firms if all parties to any dispute were encouraged by an appropriate dispute resolution mechanism in IA-CEPA. The first prescribed step should be directed to encouraging the parties to avoid adversarial processes such as litigation or arbitration as far as possible. The provision should be directed towards having the parties act positively to solve or minimize the impact of any dispute immediately a problem arises. That mechanism should encourage the parties to the dispute and governments (whether or not they are parties to the dispute) to recognize that it is in the best interests of everyone to confidentially, efficiently and expeditiously resolve the dispute.

AANZFTA contains a dispute settlement mechanism and the IA-CEPA should be compatible with this.

5 OPPORTUNITIES AND INITIATIVES

5.1 SECTOR PRIORITIES

The 2012 IA-BPG Position Paper focussed on both opportunities for trade and investment between Indonesia and Australia and on cross-cutting issues that inhibit trade and investment. These issues generally applied across several industry sectors.

The Report then set out, in a table, how these issues impact on the major sectors of agriculture and agribusiness, mining and energy, manufacturing and services.

In an Annex, the report then presented discussions of priority sectors that were the result of the 2012 stakeholder consultation process.

The sectors were examined in terms of the current situation, vision and opportunities, and issues that need to be addressed in enhancing trade, investment and economic cooperation. The sectors examined were:

1. Agriculture and agribusiness
2. Mining and energy
3. Manufacturing
4. Financial services
5. Professional and business services
6. Education and research
7. Health services
8. Green economy.

AIBC suggests that to the list of sectors above should be added:

1. Infrastructure development
2. Digital economy and e-commerce
3. Skills and labour exchange
4. Tourism and hospitality.

As noted earlier, infrastructure and skills formation are two critical enablers of Indonesian economic growth.

Each of the sectors above interacts with several other sectors. AIBC recognises that several sectors in each list are at once facilitators of other sectors and business sectors in their own right.

Consultations with business should be used to verify proposed additions and enhance the 2012 sectoral discussion.

5.2 EARLY OUTCOMES IDENTIFIED

As discussed in section 3.9, early outcomes are a defining feature of how the IA-CEPA is different from other FTAs, which are concluded under the principle of ‘nothing is agreed until everything is agreed’. IA-CEPA will deliver outcomes progressively as negotiations proceed.

The following thematic and sectoral sections identify initiatives or projects that are recent, underway or imminent to deliver early outcomes. They cover both sectors (eg, agriculture) and cross-cutting themes (eg, skills, infrastructure).

Early outcomes from the IA-CEPA are identified within each sectoral and/or thematic discussion below. These are categorised as:

- *Provisions* within the IA-CEPA to facilitate trade, investment and economic cooperation
- *Projects* that can facilitate B-to-B and G-to-G collaboration.

5.3 INFRASTRUCTURE

Australia's capabilities in infrastructure governance, financing and delivery complement the very high priority that President Joko Widodo has placed on enhancing infrastructure as the key to economic growth. The overarching focus on infrastructure development includes the new energy devoted to strengthening the maritime assets of the archipelago.

Australia's infrastructure sector is well-placed to help Indonesia meet its infrastructure objectives⁷⁸. Opportunities identified so far include: cooperation in infrastructure such as the building of toll roads; development of ports; and cooperation within the banking sectors in Indonesia and Australia in terms of financing and asset management⁷⁹.

Australian financial institutions, infrastructure consulting firms and government infrastructure agencies have world-class expertise in public-private partnerships to deliver infrastructure. This is recognised by the World Bank, which views Australia's infrastructure market as a role model a new market-based financing program for the International Development Association, a World Bank financing vehicle⁸⁰.

There is potential to engage Australian federal and state government agencies, financial institutions, consulting firms, contractors and operators in Indonesian infrastructure. They are inhibited, however, by lack of knowledge of the opportunities and how to operate in Indonesia, and by lack of trust in the operating environment, as well as barriers to operation of foreign companies and to movement of people.

Within the energy sector, there are several high potential opportunities. Australian investors or consultants have not been significantly involved so far in the 35GW electricity project, which to date has been dominated by coal-fired generation contracts. Indonesia however is targeting 25 per cent renewable generation sources, as well as 25 per cent gas. Many of these projects will supply island communities and industry in Eastern Indonesia. Australia is well placed to partner with Indonesia in delivery of remote renewable and hybrid electricity supply projects. Australian companies have access to the right technologies and experience in financing and building cost-effective and reliable remote systems.

Australian engagement in electricity is inhibited by lack of knowledge of the process, and perceptions of competition from suppliers from other nations.

An AIBC initiative, the IA Infrastructure Dialogue, has over an 18-month period matured to the point where a short-list is being examined to select a 'showcase' opportunity for an Australian consortium to design, finance and build a major infrastructure project in Java.

Australian private sector operators in infrastructure are also working with government agencies and the private sector in Indonesia to deliver new infrastructure such as ports, and tourism and residential developments.

Inhibitors to greater Australia-Indonesia cooperation in infrastructure identified by these companies include:

- Uncertain processes at all stages of project design, contracting, delivery and operation
- Severe restrictions on provision of services to infrastructure delivery, either through the Negative Investment List or regulation by Ministries, including restrictions on the operation of financial services and professional services firms with the required capacity
- Restrictions on engagement of expatriate professionals necessary to deliver expertise and capacity for complex infrastructure projects.

In Economic Cooperation, the Indonesia Infrastructure Initiative ([IndII](#)), funded by the Australian Government in collaboration with the Government of Indonesia, has delivered capacity-building in planning, delivery and operation of a wide range of infrastructure, ranging from urban water to rail.

AIBC understands that a follow-on initiative to IndII is currently being designed by the two governments. AIBC strongly supports the enhancement of economic cooperation in infrastructure. AIBC suggests that this could include an Indonesia-Australia PPP Centre, which would help fulfil Indonesia's need for high quality design, structuring and documentation of projects on offer. Such a centre working closely with BKPM would streamline investment and workflow in this crucial sector. A similar centre was recently created in The Philippines with Australian assistance.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Easing of key restrictions on services provision, including financial and construction services
- Easing of restrictions on work in Indonesia by foreign professionals engaged in infrastructure-related services.

PROJECTS

- Agreement to IndII follow-on program, including PPP centre
- Support for engagement of Australian firms in infrastructure delivery in Indonesia.

5.4 AGRICULTURE AND FOOD

Agriculture and food processing are amongst the most complementary of sectors in Indonesia and Australia. Obvious cooperation opportunities exist considering Indonesia's need to modernise its agriculture sector and potential to develop world class food manufacturing industries, and Australian expertise across agricultural sectors and their entire value chains.

For these reasons, several stakeholders including Minister Steven Ciobo have identified agriculture as an important focus of the IA-CEPA negotiations⁸¹.

Indonesian agriculture in general has poor capacity for reliable, high quality supply to domestic markets – both consumer and industrial – and very low capacity for supply internationally. Food security in terms of production, price and supply chains remains a constant concern. Many agricultural inputs to manufacturing are imported. Nevertheless, Indonesia has high potential to build its capacity to supply demanding markets at home, in the region and further afield.

By contrast, agriculture is a key Australian strength. Australia has an export-oriented agriculture sector with strong and growing markets in the commodity sub-sector (eg grains), the value-added sector (eg dairy products), through to the bespoke, high value sub-sector (eg seafood and fruits).

Australia has positioned itself as a source of premium, “clean and green” food and beverages. It has world class expertise in agronomy, agricultural systems, agricultural governance and agriproduct transformation and processing.

By working together, Australia and Indonesia can help each other meet their agriculture and food objectives, when working on their own would likely result in falling short. Most fundamentally, achieving food security in Indonesia is much more quickly and reliably achieved through cooperation.

Long-term, there are opportunities for Indonesia and Australia to collaborate in accessing third markets. In the interim, one of the market and capacity-building strategies is for Indonesia to develop high value agriculture supply chains to Australia. This could be the subject of pilot projects.

Some progress has been made in live animal trade (Australia to Indonesia), in bilateral value chain investment and in development of a cross-border industry. This is as a result of increased focus on this sector by both the Australian and Indonesian governments and the red meat and cattle industry through a partnership model (see section 5.4.2).

Australian-Indonesia cooperation should not end at agronomy, mechanisation and animal husbandry. Australian expertise extends to creating high value brands for agricultural products, building 21st Century cooperatives, and share farming and consolidating production to drive productivity and lift farmer returns.

5.4.1 Whole of system approach

Opening of agricultural markets in Indonesia to simple export of Australian products is problematic both politically (due to competition with local farmers) and in terms of assuring food security. AIBC recommends a collaborative, whole-of-system, value-chain approach to two-way trade, investment, value adding and supply of third markets.

Elements of this approach are already in place in several sub-sectors, including grains and flour milling, cattle and red meat.

Agriculture cooperation must be two way. Australian agriculture needs AU\$1 trillion of capital investment to double its productivity. Indonesian investors have strong opportunity to invest in agricultural production capacity and supply Indonesian as well as other regional markets.

Indonesia and Australia could jointly develop a ‘Food Plan 2030’ to underpin Indonesian food security, two-way investment and trade, supply of third party markets and capacity-building as part of a systems approach.

5.4.2 Red meat and cattle

Trade liberalisation under the IA-CEPA should facilitate reliable access to a wide range of red meat products (either boxed product or derived from Australian live cattle) for consumers in Indonesia – thereby helping to facilitate the Indonesian goal of enhanced food security. Strong population and income growth are fuelling food demand which cannot be satisfied by domestic production alone. Secure supply chains with trusted partners are needed. For the supply of quality red meat and livestock, and for co-investment – as well as for transfer of knowledge and technology to build capacity – Australia is an ideal CEPA partner.

Notwithstanding recent improvements in trade relations around red meat and cattle, frequent changes to regulations (including quotas and licences) remain an important issue inhibiting trade and investment – and ultimately undermining both food security plus micro to medium size

Indonesian businesses involved in the sector. Regulatory uncertainty undermines investment in the sector in both Australia and Indonesia.

To enable the bilateral red meat and cattle partnership, the IA-CEPA must be comprehensive and include trade liberalisation for all red meat and livestock products, opening-up for two-way investment, opening of trade in relevant services (eg, training), and liberalising movement of people.

Specific measures include:

- Reaffirmation of zero import tariffs and tariff elimination secured under AANZFTA and the elimination of those import tariffs not addressed under AANZFTA
- Removal of measures that restrict the trade in live cattle and boxed beef, resulting in market disruption, such as: weight limits on live cattle imports; restrictions on the issuance of live cattle and beef/offal import permits; restrictions on beef product types and distribution channels; and a ban on the importation of certain offal items
- Removal of barriers to two-way investment in red meat and cattle, and to trade in services utilised in the sector
- Removal of barriers to movement of people for management, knowledge transfer and skills exchange
- Ongoing enhancement of dialogue between Australian and Indonesian authorities to avoid future import or food regulations becoming non-tariff barriers, and to avoid the uncertainty often associated with specific import requirements and, at times, the inconsistency with their application throughout Indonesia.

Indonesia Australia Partnership on Food Security in the Red Meat and Cattle Sector

AIBC endorses the *Indonesia Australia Partnership on Food Security in the Red Meat and Cattle Sector*, which is a strong example of how the two nations are working to create stronger business partnerships. There is already substantial cross-border private investment in cattle and red meat, but this should be strengthened to cement value chains and build the industry.

Box 5 provides a summary of how the partnership works. This partnership should result in more reliable domestic supply with less supply volatility and deliver benefits to all supply chain participants. The partnership could lead to Indonesia and Australia finding competitive advantages in delivery to third markets⁸².

While supporting the partnership, AIBC is also concerned at the comparatively slow rate of progress in it progressing to achieve its goals.

This initiative aligns with IA-BPG's 2012 "A Healthy Diet" pilot project proposal, which also included Indonesian tropical fruit supply to Australia (see section 5.4.3). Other agriculture sectors could benefit from similar approaches.

The partnership adopts an integrated, systems based approach that addresses key facets of the supply chain to create win-win outcomes that neither nation would be able to achieve on its own. There are excellent opportunities to further build joint cattle breeding and feedlotting projects, including micro-cattle stations in Indonesia utilising Australian knowledge and technology.

Box 5: Indonesia Australia Partnership on Food Security in the Red Meat and Cattle Sector

Purpose

To synergise Australian and Indonesian strengths and potentials in order to develop the Indonesian cattle sector and improve prospects for long term investment and trade in red meat and cattle in Indonesia as part of a globally competitive supply chain.

Role

The main role of the partnership is to recommend policy and behaviour change of the relevant actors in the supply chain. The partnership has four outcome areas, enabled through Partnership Funds:

- **Exchanges:** to create greater understanding between the Indonesian and Australian governments, industries and enterprises, of the relevant constraints and opportunities that are present in the sector.
- **Skills:** improving the capacity of Indonesians working in the red meat and cattle sector, including through training programs in Australia and in Indonesia.
- **Research:** commissioning of research and to identify opportunities for overcoming impediments to the growth of the sector.
- **Pilot projects:** to test advances in the supply chain, to encourage investment in the sector and to inform policy. The first pilot is the three-year, \$8 million promoting sustainable commercial scale beef cattle breeding in Indonesia project.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Reaffirmation of zero import tariffs and tariff elimination secured under AANZFTA, and elimination of remaining import tariffs
- Removal of barriers to investment, services and movement of people in the sector.

PROJECTS

- Faster delivery of outputs of Partnership on Food Security in the Red Meat and Cattle Sector.

5.4.3 Tropical fruit

In 2012, IA-BPG proposed, as a reciprocal project to red meat and cattle, delivering market access for Indonesian tropical fruits into Australia. This proposal remains a highly valid project that should be pursued by Indonesian and Australian governments and business.

The horticulture trade provisions of the Thailand Australia FTA provide a precedent, including in facilitating Thai exports of fruit to Australia. Another precedent was set in June 2016, when New Zealand and Indonesia agreed that they would cooperate to facilitate access for Indonesian agricultural products to New Zealand, particularly tropical fruits, in order to increase agriculture export performance.

Indonesian food suppliers – especially of fresh food – have often complained that Australia’s import conditions make it extremely difficult to enter the market. The IA-BPG proposal in 2012 proposed the following approach:

The difficulties faced by Indonesian tropical fruit farmers in meeting Australian quality and SPS standards suggests the need for greater information exchange and capacity building in the areas of Good Agricultural Practices, Good Handling

Practices and Good Manufacturing Practices, plus development of reliable value chains that will enhance quality, value and market access.

Not only limited to technical matters and transfer of knowledge, capacity building initiatives are also needed to address a possible lack of understanding due to language and/or cultural barriers. If Indonesian producers can gear up to successfully supply Australian markets, then entry to other countries will become easier.

Indonesia should not seek to reduce Australia's SPS entry regime but Australia should consider not only technical assistance at a scientific level but also deeper engagement by actual primary producers and other value chain participants to assist the development of Indonesia's agricultural industries to meet the high standard required for market entry in global supply chains.

In addition to SPS entry requirements, the project can also target capacity-building to achieve consistent product quality and presentation standards, and developing viable supply chains, particularly from Eastern Indonesia.

The tropical fruit project could be a pilot project that once proven could move to consider other sectors such as cocoa, coffee, sustainable palm oil and seafood produced through aquaculture.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Facilitation of Indonesian horticulture exports to Australia
- Opening of agriculture and agriculture services investment and MNP in Indonesia.

PROJECTS

- Establish Indonesia Australia Horticulture Partnership to build capacity of Indonesian producers to export and build supply chain capability.

5.4.4 Grains

Grains and their derivative products form a prime example of global value chains at work. Indonesia is Australia's largest single grains market. Wheat, milled into flour in Indonesia, is a major input to one of Indonesia's most ubiquitous food exports – instant noodles – as well as biscuits, cakes, bread and other food products consumed domestically and exported. Australian and Indonesian firms collaborate in grains trade, flour milling in Indonesia, and recently have moved into flour milling elsewhere in ASEAN. Other Australian broadacre products such as barley, pulses (including lupin) and canola oil also provide inputs to Indonesian food manufacturing. There is potential for these products to meet the needs of evolving diets in Indonesia through processing partnerships with Australia.

Indonesia is working to lift productivity of growing its staple food, rice, through improved rice varieties and agronomic practices, plus improving input supply chains of fertiliser and product chains including storage and distribution.

There are excellent opportunities for Indonesia and Australia to cooperate to improve productivity, processing, and supply chains of grains and related products, through:

- Cooperative research and development projects in improvement to farm productivity, optimisation of supply chains, utilisation of products and returns to primary producers

- Additional co-investment by Australian and Indonesian companies in various parts of the grains and food value chain.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Easing of restrictions on investment in agriculture and food investment in Indonesia, and movement of people to Indonesia.

PROJECTS

- Government support of industry-initiated projects to conduct joint research and development, build skills in value adding to grains and derivative products, and grow capacity in grains-based food processing and in building returns from grains and food value chains.

5.4.5 Sugar and seafood

Similar collaborative approaches to grains, fruit and red meat can be implemented in other agriculture fields, such as sugar and seafood. In sugar, the domestic sugar industry has very low capacity to supply the growing food processing market and imports are required. Capacity-building of the sugar sector, plus new investment in milling and refining, is necessary to tap part of the market opportunities. At the same time, imports will still be needed, to meet the needs for competitively-priced supply for manufacturing.

Australia is able to cooperate with Indonesia in building capacity in sugar production, while Indonesia should ensure that Australian sugar competes on a level playing field with ASEAN producers.

Implementation of cooperative structures in fishing and aquaculture, in cooperation with Australia, could both increase productivity and returns to producers. As well, Australia and Indonesia can undertake collaborative research and development into sustainable yields and efficient supply chains.

5.4.6 Halal certification of food products

Indonesia stipulates that Australian meat processing and other food operations exporting to this market must be approved via a state-based Halal certification protocol. Ongoing confidence in Australia's certification and Halal programs by Indonesian authorities, to ensure unimpeded access, is essential. This somewhat fragmented state-by-state arrangement for Australia adds costs and complexity. AIBC suggests that it be re-configured on a national basis – to the Australian Government Authorised Halal Program – and that the Government negotiates Indonesian accreditation of this, including transitional arrangements.

5.5 SKILLS: ACTIVATING HUMAN CAPITAL

Cooperation in skills development is a high priority for stakeholders, including both governments⁸³. The potential of Indonesia's demographic dividend^b will not be fully realised without adequate skills formation to activate human capital through secondary education, vocational education and training (VET), university education and ongoing professional development.

Indonesians want quality education for their children. Australia is the third largest global provider of international education services and is well placed to expand its delivery of education services to Indonesia⁸⁴.

Australia needs more skilled workers to enable its knowledge-intensive sectors to grow and to tap world markets. Australian students and early career workers need to learn more about doing business in Indonesia and South East Asia more generally in order for Australian business to engage more effectively in economic integration.

AIBC argues that Indonesia-Australia cooperation in education, training and professional development is a perfect example of complementary comparative advantages. It will have close to the highest potential to activate transformational change in national economies and the economic relationship.

Despite the criticality of skills for both nations, and the high potential for both to benefit, cooperation in education and training has been fitful. This is due to a range of factors, including slow responsiveness of governments, lack of capacity of public and private education and training providers, concerns about 'competition' and regulations that severely inhibit foreign investment in education and training in Indonesia.

Minister Thomas Lembong has been explicit in proposing cooperation in vocational training and capacity building, including internships in Australia. He nominated nurses/caregivers, chefs, and fashion and jewellery designers. These are occupations where Indonesia is currently trying to add new jobs. The Minister proposed to implement skills exchanges in six months from March 2016⁸⁵.

In addition, Minister Lembong has suggested that the education services sector could be a new investment opportunity for Australia. He has proposed that Australia enter into a university joint venture in a Special Economic Zone.

The Australian Government's *National Strategy for International Education 2025* echoes similar sentiments in terms of the opportunities for strengthening education and training partnerships abroad with governments, businesses and industry⁸⁶.

IA-BPG in 2012 proposed a pilot project Pilot Project 2: "A Skilled Workforce"⁸⁷, to support increased skills development in Indonesia and Australia by facilitating cooperation in training, easier movement of skilled people (including technical workers and early career interns) between countries, plus increased capability transfer. An initial step to give this effect will be the soon-to-be-agreed "Skills Exchange" between the two nations (see below for further discussion).

^b The demographic dividend, also known as the dependency ratio, occurs when the ratio of young people (15 years and younger) and old people (65 and older) to people at a productive age (15-64 years) shrinks. That means that there are more people who are productive as a proportion of the total population. Indonesia is entering a strong demographic dividend era, with the peak is projected to occur around 2028-2031.

In addition, IA-BPG emphasised the need for more collaboration between universities and research centres, for mutual recognition of qualifications, and for fostering of two-way internship opportunities.

All of the 2012 proposals remain highly relevant, but AIBC believes that there is a need to create a step-change with a bold, integrated program that puts education, training and professional development at the centre of economic cooperation under the IA-CEPA. The following sections discuss elements of a new cooperation program.

5.5.1 Proposed Skills Exchange Memorandum of Understanding (MoU)

A new capacity-building activity (a “Skills Exchange”) is being designed by the Australian and Indonesian governments, initially as a pilot project. A Memorandum of Understanding is proposed between the two governments to implement the skills exchange program.

The primary objective is *to enable appropriately skilled individuals to travel between Indonesia and Australia for the purpose of undertaking short-term workplace placements and practical skills training with businesses or other organisations.*

The Pilot Project will enable exchanges between Indonesia and Australia of: skilled people to undertake a workplace placement and training; and individual trainers to deliver skills and workplace training.

The project aims to:

- Facilitate exchanges to share skills and practical work experience between Indonesia and Australia
- Strengthen understanding of business, government and cultural practices in Indonesia and Australia
- Strengthen cooperation between Indonesian and Australian government agencies on collaborative skills development
- Enable business to provide targeted workplace-based training and experience to employees in both Indonesia and Australia to improve skills competencies
- Appropriately recognise individuals’ experiences while on the exchange.

AIBC supports the Skills Exchange pilot as it addresses some of the identified education and training priorities and is also a good ‘early outcomes’ project. The pilot needs to be part of a larger, multi-dimensional approach to cooperation in education and training.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Easing of restrictions on Movement of Natural Persons to enable participation in Skills Exchange and related education and training, and capacity-building activities.

PROJECTS

- Agree, implement, monitor and scale-up Skills Exchange.

5.5.2 VET sector cooperation

The majority of new jobs in Indonesia are and will be semi-skilled or skilled and prospective employees will increasingly require accredited VET qualifications. If Indonesian workers are to be

employed in skilled occupations in other countries, including Australia, they will need internationally-recognised skills accreditation.

The Vocational Education and Training (VET) sector is underdeveloped in Indonesia, particularly relative to the large latent demand for workers with VET skills and consequent massive training task. Currently the VET sector, including SMK (Vocational High Schools), trains nowhere near enough students to standards to meet the needs of industry or the needs of the workforce for productive employment. The public VET sector trains far fewer students than the Australian public VET sector, despite Indonesia having ten times the population. Many manufacturing and services firms in Indonesia have developed their own VET training programs in order to train the workforces they need. Some have done this with assistance from Australian training organisations.

This approach is inefficient relative to a coordinated approach and may result in incompatible competencies as well as increasing shortfalls in trained personnel.

Australia currently benefits from the deficiencies of the Indonesian VET system, with over 40 per cent of the 19,300 Indonesian student enrolments being in Australian VET courses⁸⁸. This equips students well for work in Australia, Indonesia and around the world. For Indonesia, there is a need to lift the capability of the Indonesian VET sector to meet similar standards and train far more people.

In advance of IA-CEPA negotiations, Australia's TAFE Directors Australia (TDA) in December 2011 began a three-stage project focusing on the Indonesian VET sector and its engagement with business and industry⁸⁹. This project was supported by the Governments of Indonesia and Australia, plus business. It had three stages:

- Stage one was a survey of Indonesian polytechnics and their business/industry engagement
- Stage two identified Indonesian and Australian business and industry skill needs and their linkages with the VET sector
- Stage three was a mentorship program for 38 leaders from the Indonesian polytechnic sector engaged in intensive workshops and mentoring in Australia.

One of the proposals coming from these activities was for a new public-private networked model for Indonesian VET.

In September 2013, TDA and the Indonesia Australia Business Council (IABC) co-hosted the inaugural Indonesia Australia Industry Skills Training Roundtable in Jakarta.

IABC understands that these activities then stalled for several reasons, including cuts to and reprioritisation of the Australian Government budget. There remains a clear need and an opportunity for an Indonesia-Australia partnership to help build a public-private networked approach to VET institutional capacity and consistent skills formation. This needs to be based on an internationally-recognised qualifications framework and consistent curricula.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Prioritise VET sector development in measures that support skills cooperation.

PROJECTS

- Design of a follow-on project to progress work to date on cooperative VET sector capacity-building.

5.5.3 Nurse and doctor training

In his March 2016 visit to Australia, Minister Lembong said how impressed he was with the rigorous approach to training of health professionals⁹⁰, following a visit to The University of Sydney Nursing School. As noted earlier in this submission, Minister Lembong has identified training of health workers as a key skills formation priority for Indonesia. At Sydney Nursing School, he expressed a keen interest in the development of closer ties between Australia and Indonesia, and focused particularly on the importance of the discipline of nursing for meeting the growing demand for health care services in Indonesia.

AIBC understands that Sydney University has proposed a collaboration with Indonesia in training of Indonesian nurses, building on current training of Indonesians in the field. AIBC looks forward to hearing that this proposal has been supported and resourced by the two governments.

Involvement of Australian doctors and nurse trainers in training in Indonesia is severely limited by Indonesian regulations on Movement of Natural Persons (MNP) and work permits. AIBC understands, for example, that they are not permitted to handle patients, even in the context of training. These types of illogical and counterproductive restrictions need to be eased to enable effective capacity-building.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Easing of restrictions on movement of people to enable training of health professionals by Australians in Indonesia and work by Indonesian health and allied health professionals in Australia
- Easing of restrictions on Australian investment in education and training in Indonesia to enable a comprehensive collaboration.

PROJECTS

- Facilitation by both governments of collaborative training of Indonesian nurses.

5.5.4 Recognition of qualifications

Lack of recognition of skills between Indonesia and Australia significantly affects the business-to-business relationship as well as people-to-people interactions. It also contributes to problematic issues with movement of people and issuing of visas.

As discussed in section 5.5.2, lack of internationally recognised qualifications frameworks, curricula and training services severely inhibits the ability of its skilled workers to access employment in other markets, including Australia.

Therefore, Australia and Indonesia will benefit from collaborating to develop a framework for mutual recognition of qualifications, and as a prerequisite for that, implement the Indonesian qualifications framework that meets international benchmarks.

AIBC encourage Indonesia to ratify the Asia-Pacific Regional Convention on the Recognition of Qualifications in Higher Education 2011.

Australia may be able to provide technical assistance for Indonesia to reference the Indonesian Qualifications Framework to the ASEAN Qualifications Reference Framework.

AIBC believes that mutual recognition of qualifications need not always involve the harmonisation of qualifications as much as ensuring the equivalence of outcomes. In some cases, such as professional recognition of accountants and engineers, there are needs for warranting that qualifications are like-for-like.

AIBC recommends that the IA-BPG look at the approach within the Trans Pacific Partnership to recognition of qualifications, and in particular the fact sheets available on Vietnam. This approach could be highly relevant to the IA-CEPA.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Include provisions to move towards mutual recognition of qualifications and to cooperate in development of internationally recognised frameworks.

PROJECTS

- In conjunction with Skill Exchange and/or VET sector cooperation, conduct an initial project to harmonise qualifications across priority occupations.

5.5.5 University cooperation

Indonesia has placed a high priority on lifting the capacity of its universities in all facets, with a focus on larger numbers of PhD qualified staff, publication of research and stronger focus on commercialisation of research outputs. It needs to do this to enable its progression as a global economic power. Without stronger capacity in teaching, learning and research, Indonesia cannot achieve its economic and social goals.

The private university sector, which is very large in Indonesia, needs new capital in order to grow and develop its scale, capacity and quality.

This has been recognised explicitly in successive economic development plans, which have placed increasing priority on the development of research and knowledge hubs as key components of soft infrastructure that are essential to economic transformation.

Australia has world class universities which are particularly focussed on the issues affecting the Asian region. They produce graduates that are able to take their places in the global workforce. They are experienced collaborators in world-class, regionally-relevant research with each other and with universities around the world. Australian universities are experienced and increasingly successful in commercialising research outcomes and their recent journey in improving commercialisation performance holds valuable lessons for Indonesian universities.

Australia has an advanced system of research, involving industry-government-university collaborations. Indonesia has not yet developed such a system.

Cooperation between universities in Indonesia and Australia is a key pathway for rapid growth of capacity and for opening up collaborations in research, teaching and learning. Australian universities have a keen desire to undertake research cooperation on issues of mutual interest, of which there are many.

The IA-CEPA must therefore prioritise cooperation in university education and research as a crucial avenue for closer economic relations. It should open the Indonesian university sector for foreign investment and staff exchange.

Student exchange

Indonesia is an important source of students for Australian universities, though as the economic analysis for IA-BPG has shown, is overshadowed by several other nations, now including, in ASEAN, Vietnam and Malaysia. The number of Australian students studying in Indonesian universities and undertaking internships has increased rapidly in recent years, largely due to New Colombo Plan programs and funding. Indonesia is the most popular destination for Australian students under the New Colombo Plan program. About 2,000 students are being supported to study in Indonesia in the first three years of the program (2014-2016)—a fifth of the total number of students being supported across the entire Indo-Pacific region (10,000 over the same period).

There is much potential for further increasing student exchange to enable students to undertake study in each nation, through semester programs and joint degrees.

Some Indonesian and Australian universities have joint degree programs at Bachelors and/or Masters levels. These are generally under-utilised by students from both nations, but especially Australia. There is great potential for substantially lifting both the number of joint programs and number of Indonesian and Australian students participating in them.

There is a fundamental issue for study by Indonesian undergraduates in Australian university programs, whether delivered in Indonesia or Australia. The school leaving standards in Indonesia generally fall well short of the standards required for entry into international universities. As a result, the number of Indonesian students who are able to access international undergraduate studies is less than it should be to meet Indonesia's human capital needs. There are two principal inhibitors to redressing this shortfall:

- Lack of consistent and coordinated transition programs for bringing Indonesian students up to international standards for university entry
- Restrictions on operation of Australian and other foreign training providers operating in Indonesia.

There is a need and an opportunity for Indonesia and Australia to collaborate to develop consistent transitional programs for university entry, including facilitation of operation of expert training providers to deliver this in Indonesia. IA-CEPA could provide a vehicle to support this.

Collaborative research and capacity-building

Indonesian and Australian universities conduct some research jointly, but the amount falls far short of what research should be between two nations with so many common interests. Box 6 contains a research cooperation snapshot⁹¹. University cooperation for capacity-building also occurs, notably in medicine, health sciences and leadership development, but again is at modest levels.

The Australia-Indonesia Centre (AIC) is a good example of mutually beneficial collaboration between Australian and Indonesian universities which fosters links between research institutions, business and governments in both nations. AIC supports collaborative research through five research clusters that bring together the research capacity of the four Australian and seven Indonesian participating institutions to provide the critical mass and interdisciplinary expertise. The clusters operate in the fields of:

- Energy
- Infrastructure
- Health
- Resilient communities
- Agriculture and food.

About half of \$15 million Australian Government funding to AIC is invested in joint research with Indonesia. AIC is also seeking stories of research between the two nations. This may help to paint a picture of current activity and future research opportunities.

Box 6: Indonesia Australia research collaboration snapshot

- In 2014, Universities Australia members reported a total of 237 currently active formal agreements in place with Indonesian universities and other partner organisations. The majority of these agreements, almost 85%, include provision for research collaboration.
- Australia was Indonesia's second ranked joint publication partner in 2013, after Japan.
- Indonesia was Australia's 39th ranked scientific publication partner in 2013.
- Medical and health science was the top field for joint publications between 2010 and 2015.
- Australia-Indonesia joint publications more than tripled in the decade to 2013, faster growth than Australia experienced with most partners.
- Indonesia's research strengths lie in environmental science, ecology, chemical engineering, public, environmental and occupational health, as well as biotechnology and applied microbiology.
- There are 52 instances of collaboration with Indonesia on new and ongoing Australian Research Council (ARC) funded projects in 2016 under 8 different ARC funding schemes.
- In 2016, a total of \$16.7 million of funding has been allocated for projects (new and ongoing) that involve instances of collaboration with Indonesia.
- On new and ongoing projects in 2016, the most popular disciplines for collaboration with Indonesia are: Archaeology; Political Science; Geology; Law and Environmental Science and Management.
- The CSIRO has been working with Indonesia for over 40 years, predominantly in agricultural systems, and collaborating at the project and programme level in partnerships with DFAT, the World Bank, the United Nations, and other agencies.
- The CSIRO has a broad portfolio of activities in Indonesia encompassing energy, sustainable development, digital productivity, meteorology and biosecurity. The CSIRO has two memoranda of understanding (MOU) with Indonesia, as well as 28 joint publications.
- In 2013, CSIRO signed a partnership agreement with the Agency for the Assessment and Application of Technology (BPPT), Indonesia's publicly funded applied research agency.

Part of the reason for relatively low levels of inter-university cooperation are perceptions of asymmetry of capability between Australian and Indonesian universities. In addition, there is often poor understanding between universities, notwithstanding the number of Indonesian students, both undergraduate and postgraduate, in Australia. Finally, funding for collaborative research is quite modest, notwithstanding the AIC program.

One of the preconditions to closer economic relations is to build relationships between education and research institutions to enable collaboration in teaching, learning and research.

A recent, very preliminary proposal from Indonesian government, industry and universities is for cooperation around research hubs, whereby research nodes are created in Indonesia linked to research centres in Australia. The discussion to date has examined research and capacity-building needs in offshore oil and gas technologies and LNG.

IA-CEPA can provide a vehicle for stimulating research cooperation and for removing barriers, notably relating to restrictions on MNP and foreign investment.

Universities and IA-CEPA

AIBC believes that the IA-CEPA and allied projects should include measures to encourage universities to work more closely together in teaching, learning and research, including joint degree programs and joint research activities and centres.

In particular, the IA-CEPA should include:

- Provisions for opening the university sector to foreign investment
- Provisions for opening the training sector to allow for resourcing of much-increased school to university transition programs
- Provisions for movement of skilled people to undertake research and conduct teaching.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Easing of restrictions on investment in the university and allied training sectors
- Easing of restriction on movement of skilled people

PROJECTS

- Design of a coordinated and collaborative school to university transition approach
- Enhanced support for collaborative research

5.6 MOVEMENT OF PEOPLE

The 2012 IA-BPG position paper repeatedly emphasised the need to free-up two-way 'movement of natural persons' (MNP) between Indonesia and Australia.⁹² Current restrictions severely hamper business in both nations and hold back trade and investment, particularly in services. In consultations by AIBC in 2016, MNP issues were the most often raised by Australian business.

IA-BPG, in its 2012 Position Paper, recommended freeing up of movement of professionals (including skilled trades) across all business sectors. Unfortunately for the Indonesian economy, policy on movement of professionals to Indonesia has trended against its economic interests. Nevertheless, Indonesia has committed in the ASEAN Economic Community to opening up to movement of people⁹³.

5.6.1 Business visas

As discussed in section 5.6.3, it is unnecessarily difficult for Australian businesspeople to obtain visas to make regular visits to Indonesia. It is easier for tourists than businesspeople to enter the country, which to AIBC seems wrongheaded, given Indonesia's desire for investment and trade.

Entry into Australia by Indonesian businesspeople (and tourists) has been freed up marginally notably with three year multi-entry visas. Visa application processes remain onerous, however, including requirements for lengthy paper-based applications (until 2017 when they are scheduled to go electronic), and requirements for letters of invitation from Australian sponsors.

As a result, businesspeople from both nations do not feel enthusiastically welcomed in the other nation, which is a ridiculous situation.

AIBC recommends that both Indonesia and Australia greatly ease restrictions on both single entry and multiple entry business visas as a matter of highest priority. The ASEAN Economic Community (AEC) MNP provisions, as well of the rest of the AEC Blueprint 2025, provide useful precedents for the IA-CEPA MNP provisions.

AIBC believes that the recommendations made around visa categories in the 2012 Position Paper (see Box 7) remain valid. These options should be carefully considered by IA-CEPA negotiations.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Immediate reform to business visa processes in Indonesia and Australia to create equivalency in applications for, and issuing of visas and to make it easy for businesspeople to enter multiple times and do business.

5.6.2 Indonesian skilled and seasonal workers to Australia

As noted in section 4.5, Australia faces long term and seasonal shortages of workers. In the long term, Australia will need skilled workers for high-growth service sectors such as healthcare, education and professional services. This will all require greater resources applied to education in Australia and enhanced skilled migration from other nations⁹⁴, as well as ensuring that the Australian community recognises and accepts the ongoing need for skilled migrants.

Seasonally, Australia needs workers in tourism and hospitality and in agriculture, notably fruit picking. Skilled workers may also be needed to supplement Australian workers for major engineering construction projects, plus periodic 'shutdown' servicing of existing minerals and energy projects.

Minister Lembong has raised the desire for cross-border employment services such as job placement for Indonesian nurses and caregivers, and fruit pickers from Indonesia to be able to work in Australia on a seasonal basis.⁹⁵ The Minister has highlighted the growing role of remittances from workers overseas in the Indonesian economy. He also cites Minister Ciobo as telling him that Australia could provide 36,000 seasonal (3-4 month) jobs in tourism and hospitality for Indonesian workers⁹⁶. Minister Lembong also says that he expects that internships in Australia will be more open⁹⁷.

It is clear then that there are good opportunities and a strong expectation of placement of Indonesian workers in Australia.

AIBC recommends that mechanisms should be developed to enable both seasonal and skilled labour migration from Indonesia to Australia. These should include tailored training programs and liberalisation of English language requirements for seasonal and short-term project workers. To develop skilled workers to be able to operate in both Australia and Indonesia, there are excellent opportunities for collaboration in education and training.

Such an initiative could be controversial in some sections of organised labour in Australia and parts of the community. Careful socialisation of the program is needed to help Australians understand the benefits and costs.

Issues around Australian entertainment visas have also been raised by AIBC members. There is often a need for individuals to personally follow-up applications with Australian immigration officials.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Easing of restrictions on MNP to Australia to enable movement of skilled and seasonal workers to Australia.

PROJECTS

- Implement Skills Exchange pilot
- Commission a study to examine what is needed to make seasonal worker movements feasible, and to design a pilot.

5.6.3 Australian professionals in Indonesia

During the past 18 months, there have been increased restrictions placed on professionals wishing to work in Indonesia. These illogically include qualified, native speaking teachers of English.

While some of these restrictions have been wound back subsequently, ongoing impediments to the use of foreign professionals continue to hamper foreign investment, particularly by those companies employing high levels of knowledge and technology. Indonesia's need for knowledge and technology transfer should result in opening up, not closing of professional positions for expatriates.

Restrictions around APEC cards for Australian businesspeople (which had been an issue in the last round of Business Partnership Group consultations several years ago) have eased and there is now visa-free travel to Indonesia for Australian tourists. But obtaining a multi entry business visa to enter Indonesia or a KITAS to stay in Indonesia are still complex processes. Moreover, the recent time limit of six months for KITAS makes them almost unworkable instruments for enabling foreign business people to work in Indonesia.

As a result of the difficulties in obtaining business visas, many Australian business people revert to a tourist visa when they should be travelling on a business visa. Moreover, there is misunderstanding and inconsistent application of the visa waiver program at major entry airports, with visitors for some purposes allowed visa free entry, while others are charged US\$35 and issued with a visa-on-arrival. This situation is confusing and difficult and impacts the accuracy of reporting and classification of travel to Indonesia by Australian business people. There is probably significant under-reporting on business travel as many Australians use tourist visas or visa-waivers to enter to Indonesia when they are actually travelling for business purposes.

More fundamentally, there is a policy inconsistency in offering visa-free entry to Australian tourists and other non-business visitors, and charging a fee to issue a visa to Australian business visitors. Given the government's eagerness to attract foreign investment and build trade, providing visa-free entry to business visitors is an obvious thing to do!

Further, Indonesian multi-entry business visas are notoriously difficult for Australian businesspeople to obtain, with at least one Indonesian Consulate advising would-be applicants not even to try. There is a need at least to make multi-entry business visas much easier to obtain. A precedent and model is

the Australian three year multi-entry visa now routinely issued to Indonesian businesspeople. That said, application processes are counterproductively complex for Australian visas, which also need reform.

Box 7: 2012 IA-BPG recommendations on movement of natural persons remain valid

- Mutual recognition of qualifications and certification by both countries to facilitate trade in services and movement of skilled workers.
- Adjust the definition of “skilled” in reference to the IA-CEPA to recognise that skilled workers can possess vocational skills without formal qualifications.
- Australia also points to the importance of Indonesia’s skills training agenda to significantly increase capacity in education through expanding and developing its Vocational High Schools (SMKs) and polytechnic network, including more polytechnic lecturers, building competency standards, industry engagement, VET quality, international VET partnerships and staff exchange and creating centres of excellence in each of the Indonesia’s six economic corridors.
- Promote education cooperation, which includes standards on education curricula and teacher competencies.
- Encourage freer movement of skilled people between the two countries. Encourage employment of skilled Indonesians and Australians in both countries.
- Encourage alternative solutions for short term migrant workers with a limited English proficiency, for example by providing “forepersons with a high level of English supervising work groups” similar to a system which operates in New Zealand for fruit pickers and packers.
 - Remove two-way barriers for the movement of skilled workers in the following areas:
 - production agriculture, science, food processing and supply chain logistics.
 - the agricultural sector to allow for more training and working in both economies to facilitate skills development and transfer as per the NT Cattleman’s Association IA pastoral industry student program.
 - standard setting, certification and assessment.
 - mining, energy, engineering and environmental management personnel.
 - skills development, training and technology transfer in the mining, energy, engineering and environmental management fields.
- Mutual skills recognition, including developing training between professional associations or vocational schools and the possibility of establishing a joint committee or institution to facilitate initiatives in the field of education.
- Simplification of work permits for lecturers, teachers and researchers, and more relaxed visa provisions for students.
- Create a special visa category under IA-CEPA to facilitate service industry movement of people.
- Encourage more relaxed restrictions on the temporary entry of professionals in services and requirement for work permits.

In addition to short-term business travel, there are issues around longer-term visits to Indonesia which is required for employee training and mentoring, and technology transfer initiatives. There is an urgent need to address this.

Requirements for issuing of work permits or KITAS have recently been tightened to the point where only six month KITAS are being issued, which, when combined with other requirements of foreign workers, go very close to being unworkable.

In the English language sector (that is, delivery of English language education services in Indonesia by Australian firms), there are highly complex and narrowly defined requirements for Australians to obtain the relevant KITAS. This has severely disrupted trade in this sector and has limited major Australian education and training organisations from entering the Indonesian market.

The net result of tightening of multiple restrictions on foreign workers has been an exodus of skills and in some cases an exodus of investment. These workers and firms locate in other countries with more welcoming environments. Ironically, in misguidedly seeking to protect Indonesian jobs, Indonesia is actually harming investment and job creation.

Contrary to the apparent popular belief in Indonesia, greater use of skilled expatriate professionals will not displace Indonesians. Amongst other things, Indonesian versus international salary differentials will see to that. Companies face strong financial incentives to employ suitably skilled Indonesians in place of expatriates. The reality is that employment and skills formation of Indonesian professionals are enhanced, not held back through the use of expatriates in management and technical leadership roles.

In AIBC's strong view, foreign worker restrictions, unless unwound, will inflict long term damage to the Indonesian economy at a time when the Government ostensibly is seeking to attract investment, technology and knowledge. This situation is one of the most egregious examples of muddled, disconnected policy-making that can only score own goals for Indonesia.

AIBC recommends that the IA-CEPA gives amongst the highest priority to opening of the Indonesia economy to skilled professionals from Australia. For a range of reasons including costs to companies and salary differentials with other locations, such a move most assuredly would not lead to a flood of expatriate workers.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Ease MNP provisions to provide ease of entry and work for Australian businesspeople and professionals
- Establish visa-free entry for Australian businesspeople to Indonesia on short term visits, and make multi-entry business visas more readily obtainable (equivalency between Indonesia and Australia is the goal)
- Reintroduce a viable KITAS scheme to facilitate residency and work by Australian professionals and those employed.

5.6.4 Internships

In 2012, IA-BPG recommended building a two-way internship system between Indonesia and Australia. Since then, Australia's *New Colombo Plan* has begun to sponsor internships for young Australians in Indonesia. Australian student visa conditions have been adjusted to allow for periods of work experience post completion of courses.

AIBC recommends extending two-way internship opportunities with businesses, government organisations, and not-for profit bodies such as universities, business associations (eg AIBC) and NGOs, facilitated by both governments.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Ensure that MNP and work permit provisions in Australia and Indonesia are reassessed to enable movement of early career persons for training, internships and work experience assignments.

PROJECTS

- Implement Skills Exchange to apply to internships and similar activities.
- Establish expanded, two-way internships program supported by business and facilitated by governments.

5.7 THE SERVICES OPPORTUNITY

As noted in section 4.5, services are going to play an increasingly important role in both the Indonesian and Australian economies. Services is both a sector encompassing many industry classifications and a sector that is vital to all facets of the two economies.

Given the growing role of services in the Indonesian and Australian economies, in enabling other sectors, in bilateral trade and investment, and in accessing global value chains, services need particular attention by the IA-BPG and in the IA-CEPA.

For Indonesia, services will be vital to servicing the needs of the growing middle class, in supporting efficient primary and secondary industry, in enabling participation in global supply chains, and in transforming and growing the economy.

For Australia, services are similarly important domestically, while they are playing an increasingly important role in exports^{98 99}.

The *Indonesia Services Dialogue Council*, the *Australian Services Roundtable* and *AsiaLink Business* have done excellent analysis and policy development that needs to inform the IA-BPG and wider IA-CEPA process.

Despite their importance domestically, and in bilateral trade and global supply chains, services are unnecessarily restricted by both Indonesia and Australia. This harms both economies.

The Indonesia Services Dialogue Council [Policy Recommendation 2015](#)¹⁰⁰ report sets out the implications of restrictions on Logistic Services, Distribution Services, Energy Services, ICT Services and e-Commerce. The Policy Recommendations report provides an excellent prescription for policy change in these sectors. Overarching recommendations to promote the development of a more competitive services sector in Indonesia include:

- Government should mainstream development of services sectors
- Government coordination is urgently needed on services policy, backed by better evidence-based data and research to understand impacts on other sectors
- Review of negative list of investment to unlock the sub-optimal growth of services sector

The report then makes a series of sector-specific recommendations, some of which could apply to several other sectors.

The *Negative Investment List* (known in Indonesia as the DNI) cited by the Indonesia Services Dialogue Council is also the most often cited regulatory instrument of concern to foreign investors in services. While the list was extensively modified earlier in 2016 to make some sectors more open to majority foreign investment, many sectors remain effectively closed, or significantly restricted to investors, which understandably seek control over their investment.

Moreover, while the DNI may have opened up in several sectors, other regulations have gone the other way, effectively negating the more open provisions of the DNI. A case in point is the draft revised Mining Law, which provides for *new* restrictions on mining contractors.

The [Australian Services Roundtable](#) has made recommendations for Australian domestic and trade policy changes in its numerous submissions to governments¹⁰¹. These include:

- Domestic policy reform to enable the productivity of Australian services industry to improve domestically and to enable it to compete regionally and globally
- A review of domestic barriers such as state based professional licensing and currency restrictions and payment systems
- Consideration of a government portfolio and bureaucratic structures to reflect the prominence and importance of services to the Australian economy
- A focus by Australian Government Departments on enabling the Australian services industry to understand, benefit from and implement business strategies and initiatives which are made possible by trade agreements.

AsiaLink Business, in its report *Growing Knowledge Economies: Insights for Australian Professional Services in Asia*¹⁰², sets out the results of a pilot study to investigate the opportunities available to Australian legal and management consulting firms in Indonesia, Singapore, Japan and Korea, as well as to understand key factors to successfully take advantage of these opportunities. Many of the findings are relevant to growing the services sector in Indonesia as well as Australia.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Services trade and investment liberalisation should be a priority for the IA-CEPA so as to greatly enhance the capability and scale of the sector in Indonesia and build strong services linkages with Australia.

5.7.1 Financial services

Australian financial services companies, and allied professionals and ICT service providers have the expertise to help grow Indonesia's own services sectors¹⁰³. As noted in the section on infrastructure, Australian financial services firms have much to contribute to infrastructure planning, financing and delivery.

In aggregate, Australian financial services companies make up probably the largest Australian investment in Indonesia, with potential for further growth.

The Australian Centre for Financial Studies (ACFS) and Indonesia's OJK Institute (an initiative of the Indonesian Financial Services Authority, Otoritas Jasa Keuangan) have agreed to cooperate, via an MoU, to enhance the capacity of OJK Institute staff in financial sector research and to develop a network of financial regulators, policymakers, researchers, and practitioners across Australia and Indonesia.¹⁰⁴ It is a result of the IA Financial Services Dialogue, an initiative of the AIBC.

This MoU could lead to a cooperative activity under AIPEG to build aspects of the Indonesia financial sector and its regulation, which AIBC understands is in design for potential support by governments. AIBC endorses this proposed activity.

5.7.2 Professional services

Many barriers exist to investment and trade in professional services, including in fields that are a priority for Indonesia to develop greater capacity¹⁰⁵. Most such barriers do not exist in other Asian nations. The 2012 IA-BPG Report contained thorough discussion of the opportunities and inhibitors to development of professional services, and trade and investment. This discussion remains valid in 2016.

Professional services are comparatively under-developed in Indonesia, ironically due in large part to measures ostensibly designed to 'protect' the sector. These are primarily restrictions on foreign investment and movement of skilled people into Indonesia. The net result is that many professional services are delivered into Indonesia by firms located in other nations.

The World Bank and OECD both assess Indonesia's services trade restrictiveness^{106 107} as being amongst the highest in the region. Several professional services industries have high levels of restrictiveness, particularly in legal services. For example, legal services firms are not allowed to practice in Indonesia under their own names and must use local Indonesian firms. However local firms come and go and it renders it difficult for Australian firms to grow in the market. There is no problem for Australian firms to use their own names in other markets. There is also requirement for professional services firms like the law firms to have multiple Indonesian lawyers to one Australian lawyer, with similar restrictions for other professional services sectors including engineering. It places huge challenges for Australian firms wishing to up-skill their Indonesian counterparts.

The negative impact of restrictions falls almost entirely on Indonesia, which imports many of its legal and accounting services from nations such as Singapore and Australia, while holding back growth of these industries domestically.

Indonesia needs to develop its professional services sector in order to:

- Attract and support investment, and meet the needs of Indonesian firms and people (particularly the middle class)
- Capture more value in Indonesia from M&A and commercial activity there
- Help to drive increased exports of both goods and services
- Enable Indonesia's economic transformation, in particular though helping to build a strong tertiary business sector and a more skilled workforce.

Australia has a highly developed professional services sector, which is growing its export capability and performance. By working together, Australia and Indonesia can develop and grow a professional services sector in Indonesia that can not only provide better services demanded by Indonesian businesses and people, but will also replace imports and eventually can become an exporting sector.

As noted earlier, the Indonesian Services Dialogue Council published a series of Policy Recommendations for Logistic Services, Distribution Services, Energy Services, ICT Services & e-Commerce. While only components of ICT services and e-commerce might be classed as professional services, many of the identified restrictions and policy recommendations are highly relevant across the professional services sector.

5.7.3 Healthcare services

The Indonesian healthcare sector needs substantial capacity-building to meet the needs of the Indonesian population. As a result of domestic under-capacity, Indonesia imports healthcare services valued at many billions of US dollars though Indonesians travelling abroad for healthcare. Australia, Singapore, Malaysia and Thailand are amongst the beneficiaries. When Indonesians spend their healthcare dollars abroad, the Indonesian healthcare system misses out on income. It is less able to invest, perpetuating the situation of under-capacity. This impacts on both the private and public health sectors, with the latter less able to provide services to the poor.

Australian healthcare providers can help Indonesia develop world-class healthcare services, including hospitals, clinics and aged and disability care¹⁰⁸. Australian companies (led by Ramsay Healthcare) are major investors, and seek to expand their Indonesian operations, if the investment

regulations are more favourable. Unfortunately, restrictive equity requirements of the Negative Investment List inhibit much needed foreign investment in healthcare and allied sectors.

The IA-CEPA should prioritise relaxation of the Negative Investment List requirements for health and allied care.

Relaxation of restrictions on movement of people – particularly for doctor-trainers and nurse-trainers in Indonesia – will help to build capacity, as discussed in section 5.5.

5.8 MINING EQUIPMENT, TECHNOLOGY AND SERVICES

Indonesia has a policy of ‘value adding’ to its mineral and coal production. The application of this policy has focussed exclusively on downstream processing of mineral products and beneficiation of coal. As the mining nations of Australia, Canada and Chile have demonstrated, development of a strong mining equipment, technology and services (METS) sector provides a technology-rich *second pathway* to adding value to minerals and coal, and oil and gas.

Indonesia has been identified by Australian METS companies as the sector’s single most important market. Australia has strong incentive to work with Indonesia in developing the Indonesian METS sector and cross-border METS value chains.

A proposed APEC-funded project should shortly undertake assessments of METS demand and supply in several economies, hopefully including Indonesia.

AIBC recommends that the Australian METS association *Austmine* and the Industry Growth Centre, *METS Ignited* be engaged in the IA-CEPA process. In Indonesia, both the Ministry of Energy and Mineral Resources and Bappenas have interests in and responsibilities for METS sector development.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Liberalise principal DNI and MNP restrictions on Australian METS providers

PROJECT

- Monitoring of outcomes of APEC-funded assessment of METS demand and supply in Indonesia and design of bilateral interventions to build the METS sector.

5.9 ENERGY AND MINERAL RESOURCES

Of the traditional sectors, Indonesia’s energy and mineral resources sector has arguably the most room for lifting its contribution to the national economy. Further, the President has made a priority of arresting the decline in oil production and discovering and developing more natural gas.

Indonesia is seen by the international exploration and mining community as one of the most prospective nations for mineral discoveries. But it is also seen as having poor policies that are not conducive for investment. In the annual Fraser Institute Survey of Mining Companies¹⁰⁹, Indonesia is consistently ranked high for ‘mineral potential’ but near the bottom of all mineral-rich jurisdictions in terms of ‘policy potential’.

Indonesia's mining and oil and gas policies have led to a chilling of investment, particularly in exploration. This inevitably will lead to a long-term decline in output. Given Indonesia's prospectivity, the opposite should be the case.

Australia on the other hand is highly ranked in terms of both mineral potential and policy. Further, Australia is assessed by McKinsey Global Institute¹¹⁰ as having world-leading performance in mining governance, along with Canada.

Australia's expertise in resources and energy is already playing a leading role in Indonesia's energy and mineral resources sectors¹¹¹. Australia is a major investor in Indonesian mining and as noted above, Indonesia is a major market for METS. Further, Indonesia and Australia have been collaborating for the past five years in building capacity in various aspects mining governance and oversight through activities with the International Mining for Development Centre, AIPEG, AAA short courses, Australian Treasury and World Bank. Most activities have been co-funded by the Government of Indonesia and Australian Aid, with support in-kind from the mining sector.

Since these partnerships began, Indonesian Government delegations and individual officials have been regular visitors to Australia to meet with government agencies, the mining industry and universities, as well as undertaking site visits and short course training. Some 350 personnel from government, NGOs and universities have participated in Australian training courses in many aspects of mining governance and frontline supervision.

Assessments of outcomes and impact reveal that these collaborations have made measurable inroads into the capacity of Indonesian institutions to manage mining well and do well from it. While major policy change is still to be achieved, the journey has well and truly begun, with deep and productive relationships being formed where before there were very few with government in a sector of vital importance to Indonesia and Australia.

In oil and gas, Australia is a major supplier of technology and services to Indonesia, and several exploration and production companies that operate in Indonesia also invest in Australia. For state-owned petroleum company Pertamina, Australia is a market for lubricants. In addition, Woodside and Pertamina recently concluded a heads of agreement for long term LNG supply to Indonesia.

AIBC recommends that a minerals and energy chapter is needed in the IA-CEPA, which should include liberalised bilateral trade and investment rules. Both Indonesia-Japan FTA and Australia-Japan FTA, and Korea-Australia FTA have minerals and/or energy chapters that can be references.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Identify energy and mineral resources as a priority sector for economic partnership.

PROJECTS

- Establish Indonesia as a primary partner for the new Australian-funded Australian Resources Development Hub.

5.10 DESIGN, ARTS, CULTURE AND SPORT

Arts and culture are part of business. Development of creative industries is a priority for both Indonesia and Australia. In Australia, creative industries generative \$45 billion per annum in value-added (\$10 billion in WA). Indonesia has a Minister responsible for creative industries, recognising their importance.

Minister Lembong has identified fashion design cooperation and capacity-building as a mechanism to help facilitate IA-CEPA negotiations and socialisation – as well as a worthwhile sector in its own right for trade enhancement. Indonesian has been assessed as having a comparative advantage in textiles and fashion.¹¹² AIBC is aware of excellence in Indonesian design and recommends that niche high quality products in Indonesia should be identified to promote in Australia.

The importance of bilateral cultural projects, particularly in the arts, should not be underestimated, as they oil wheels of mutual understanding. Contemporary arts and culture connects well with younger people. Digital technologies enable portability, exchange and collaboration.

As discussed in other sections of this submission, there is a need for improved knowledge about Indonesia (including Indonesian language studies) in the Australian education system. Teaching of arts and culture is key to successful education about other cultures.

Sport also offers pathways to build mutual understanding, as well as opportunities for collaboration, including through sports science. There is already some collaborations in sport, with Indonesian teams and sportspeople training in Australia. This has potential to be expanded.

AIBC recommends that negotiators should ensure that creative industries and sport are featured in the IA-CEPA.

PROPOSED EARLY OUTCOMES

IA-CEPA

- Identify design, arts, culture and sport as sectors that should be included in the IA-CEPA as a 21st Century economic partnership agreement.

PROJECTS

- Undertake a design partnership and collaboration under Pre-Agreement Facility.

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