For Immediate Release

New Education Road Map Needed to Address Indonesia's Shortage of Skilled Workers: J.P. Morgan-SMU Study

To help bridge the skills gap, J.P. Morgan, in partnership with Education Development Center, launch workforce readiness program.

November 1, 2016 – Indonesia needs a comprehensive overhaul of its education road map to mitigate its shortage of skilled workers, which is exacerbated by a curriculum failing to keep pace with developing employer needs, insufficient numbers of qualified teachers and trainers and poor funding.

These are among the key findings from a year-long study conducted by the Singapore Management University (SMU), in partnership with global financial services firm J.P. Morgan, on the skills challenges faced by the ASEAN economies of Singapore, Malaysia, Indonesia, the Philippines and Thailand.

While Indonesia enjoys a strong comparative advantage in low-skilled industries, it needs to significantly widen its pool of skilled workers to elevate the economy to middle-income country status, the study suggests. Currently, only 16 percent of tertiary educated graduates are studying engineering, construction and manufacturing – the core skills needed as the economy industrializes.

According to the study, there is a stark school-industry gap, which is the disconnect between the skills that educational and training institutions are imparting and what the industry is seeking. This is observed in the country's key growth industry – the information communications and technology (ICT) sector. While the 200,000 ICT students graduating annually from universities appear to be sufficient in volume, their skillsets often fall short of industry needs. Similar trends are also seen in the high-growth automotive and tourism sectors.

While the government has increased its emphasis on education reforms, including integrating more ICT-relevant training modules into the curriculum and encouraging more students to complete tertiary education, this is often hampered by weak infrastructure as well as insufficient supply of suitably qualified teachers, the study shows. This is worsened by poor funding – Indonesia has the lowest fiscal spending on education among the five ASEAN countries over the last five years, at 10 percent of state budget.

Robust economic growth in recent years may have brought down unemployment rates, but Indonesia's youth unemployment still hovers at over 18 percent, which is a serious problem as it deprives the country of one of its most important assets: the young and dynamic workforce, the study says. More than 40 percent of the population is below the age of 25, which in principle puts Indonesia in a strong position to achieve sustainable growth.

“Indonesia should leverage on its young workforce as a comparative advantage and prioritize education and skills training – ensuring that there are sufficient qualified teachers and greater involvement of industry players who can offer industrial attachments and practical training in order for the country to achieve sustainable growth,” said Arnoud De Meyer, President, SMU.

The study recommends a complete and detailed road map to strengthen the education system with emphasis on training industry-ready graduates at all levels, especially in the technical and vocational education and training (TVET) field, as a critical first step. Direction should be provided to help narrow the school-industry gap, revise outdated curriculum, enhance consultation between industries and educational institutions, improve quality of trainers and promote skills upgrading for workers.

The private sector, especially large corporations and multinational companies (MNCs), should be urged to take on greater responsibility in skills training, raising the industry bar to globally recognized standards, the study says. Success in apprenticeship programs by companies such as Toyota Indonesia has been cited as a possible model. Industry associations should explore ways to widen the impact of private sector-led training to a wider segment of the economy.

The government should also consider liberalizing labor laws to allow for easier employment of foreign professionals, at least in the key growth industries, the study adds. This could attract more MNCs into the industries, boosting foreign investment and the economy’s growth prospects.

In response to the findings, J.P. Morgan and global nonprofit research and development organization Education Development Center (EDC) today launched a workforce readiness program that aims to bridge the skills gap. The Accelerated Work Achievement and Readiness for Employment 2 (AWARE2) project is an innovative program that helps young people in Indonesia, Thailand and the Philippines gain the technical and employability skills that employers are demanding in the region’s dynamic digital economy.

“EDC’s goal is to develop a new model for demand-driven education that will prepare ASEAN youth for lifelong careers in the digital economy,” said David Offensend, EDC President and CEO. “We know that technology will create new jobs as well as replace them through automation. By preparing students with higher-level cognitive skills such as creativity, design thinking and applied analysis and problem solving we can ensure they will have the adaptive ability to anticipate and respond to the shifts in demand in the evolving technology sector.”

The Indonesian program will focus on expanding employer engagement with the education sector for more and better ICT entry-level hires, specializing in multimedia and graphic design programs in partner TVET schools.

“As ASEAN’s biggest economy with a favourable demographic dividend, Indonesia presents immense growth opportunities. As a firm, we are supportive of efforts to address its skills challenges; J.P. Morgan is funding 14 workforce-readiness programs across the Asia Pacific region focused on the ICT sector, three of which are in Indonesia," said Haryanto T. Budiman, Senior Country Officer for Indonesia at J.P. Morgan. "We are upbeat on the long-term outlook for the economy and will remain supportive of growth and inclusion in this market."

Media contacts:
Li Anne Wong | +65-9677-4574 | lianne.wong@jpmorgan.com
Corinne Kang | +65-6808-5238 | corinnekang@smu.edu.sg
Alison Cohen | +1-617-875-1240 | acohen@edc.org

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