

Section 2

To Rank amongst the World's Top Five Economies

Our economic goal is to be ranked amongst the world's top five economies. According to Vision Indonesia 2045 (Draft of October 2018), Indonesia's gross domestic product (GDP) will become the fifth-largest in the world at around US\$23,000 per capita per year, in a 'high scenario', while Japan's will become the fourth-largest in the world. Indonesia's nominal GDP in US dollars is predicted to increase seven times from US\$1 trillion (2017) with average economic growth estimated at above 6% until 2045. To achieve this, Indonesia needs an economy open to trade and investment. Therefore, strong collaboration with its major economic partner, Japan, is a key success factor. The Executive Committee discussed how the two countries can work together to overcome the economic challenges ahead.

The integrative economic challenges for both countries can be identified as openness in terms of their economy and politics, with values of moderation, tolerance, and pluralism. Indonesia has to increase its level of productivity through an enhanced role for Research, Development, and Design (RDD) and input-saving technological progress. Development in both countries has to be able to minimise any negative externalities and the use of energy and resources has to be environmentally sustainable.

Strengthening Regional and Global Value Chains and **Strengthening the Economy through Investment**. Industrial Revolution 4.0 modernises global and regional production networks and value chains including the bilateral economic relations of Japan and Indonesia. A most important channel for the country's economic network is foreign direct investment. It is significant not only in terms of filling the saving and investment gap in Indonesia, but also in terms of strengthening the economic relations between the two countries. Investment increases trade competitiveness and strengthens the bilateral economic cooperation between Japan and Indonesia.

Developing Infrastructure and Human Resource Development are the most important factors for the economic development of both countries. They are the basis for increasing productivity and reducing the development gap. Infrastructure development both in the western and eastern parts of Indonesia will reduce the economic gaps within the country, thereby increasing equality between the western and eastern part of Indonesia. Japan can help Indonesia to develop its infrastructure with technology, technical assistance, and capacity building. Bilateral economic cooperation between Japan and Indonesia in the manufacturing sector enhances their production network. Japan and Indonesia can collaborate in research and basic science, thereby creating innovation and invention towards industrial revolution 4.0. The governments of both countries need to support this network by providing physical infrastructure and supportive commercial policies.

Rural development, in the context of agricultural transformation, as well as the more equal distribution of economic activities across Indonesia's islands, is important not only for more regionally balanced development but also for supporting inclusive economic development. To revitalise the rural economies, the rural and non-rural economies will need to be synergised. In the case of Indonesia, two types of economic linkages should be strengthened. The first is the connectivity from rural to urban areas in general, and the second is the connectivity from the predominantly rural non-Java regions to the predominantly urban Java regions. Physical connectivity, such as through better roads and shipping lines, will open up more opportunities for rural economies, such as transporting village products to urban areas, or transporting people from urban areas to rural areas to enable them to directly consume agricultural products (such as visiting farmers' markets). In addition, consumers may enjoy agro-tourism in rural areas. The quality of bilateral economic relations depends on how this cooperation provides economic growth that increases employment, reduces income inequality, and supports sustainable development. Bilateral economic cooperation between Japan and Indonesia should improve agriculture and maritime sector productivity.

The fourth industrial revolution. Collaboration between the two countries can help them respond to the economic challenges posed by the fourth industrial revolution, which is expected to make competition tighter and more transparent. Collaboration based on long-established production networks and value chains will help both countries produce

high-quality products for global markets, increase demand, and generate customer loyalty. The export-led growth of Indonesia, supported by investment from Japan, will therefore be the basic formula for the common prosperity of both countries. The two governments should conduct a joint study on how to enhance Indonesian exports. Export-led growth will raise manufacturing productivity as global market access expands, and this will stimulate foreign direct investment (FDI) inflows. Free trade and economic partnership agreements will continue to be important drivers of export-led growth and FDI.

Tighter competition in the era of the fourth industrial revolution makes the role of the supply-side important for both countries. Necessary and sufficient conditions are in place for supporting the supply side. The necessary conditions include infrastructure of sufficient quantity and quality (roads, ports, warehouses, and industrial parks); utilities (electricity, water access, gas, and Internet connectivity); and an educated, skilled, and healthy workforce. Structural reform; regulatory review; transparent and fair taxation; and RDD are the sufficient conditions. Both need to be met to optimise economic development in the two countries.

A report released in 2014 by the Ministry of Industry, Indonesia showed the incentives for RDD rated as most important by entrepreneurs. But the proportion of research and development expenditure to GDP in Indonesia (0.08%) lags that of its neighbours Singapore (2.2%), Malaysia (1.3%), and Thailand (0.6%). Indonesia needs to considerably increase its budget allocation for RDD activities under the triple helix model of university–industry–government cooperation. The country also needs to increase the number of skilled engineers and upscale their RDD skills and abilities.

The use of communication technology must be massively increased to reduce transport costs, support entry into the global production networks of the fourth industrial revolution, and achieve sustained and inclusive economic development. In developing infrastructure, Indonesia needs to enhance the role of the private sector in collaboration with the government.

The regional sphere. Indonesia and Japan are members of the Regional Comprehensive Economic Partnership (RCEP) negotiations, together with other members of the Association of Southeast Asian Nations (ASEAN) – Australia, China, India, the Republic of Korea, and New Zealand. Indonesia has played a very significant role in ASEAN as the most democratic country that promotes pluralism. However, its infrastructure and physical capacity readiness is behind that of Brunei Darussalam, Malaysia, and Singapore. Japan could support Indonesia in the RCEP negotiations as Indonesia strives to enable its small and medium-sized enterprises to leverage the agreement and cope with challenges arising from globalisation and trade liberalisation. Japan believes that Indonesia's indigenous development is key to achieving the long-term goal of sustained economic advancement.

Investment. Indonesia expects to attract a higher proportion of manufacturing investment in a wider range of sectors as it upscales its technological level. Investment with a large role for RDD and innovation will be the priority for both the home and host countries. Indonesia must consistently reform and simplify its regulations to provide an attractive investment climate for all investors. In the fourth industrial revolution and beyond, Indonesia and Japan must strengthen their economic cooperation in innovation and RDD in support of manufacturing.

This will require both increasing the quality of human capital (labour-augmenting technological progress) and upscaling the technology component (labour-saving and capital-augmenting technological progress).

Human Capital. The extensive use of the Internet of things, blockchains, and machine learning, will significantly change production, management, and service efficiency. The massive utilisation of big data will substantially improve the accuracy and validity information for all economic activities including new materials innovation, creative industry enhancement, and economic cooperation architecture. All of the challenges that have emerged from the fourth industrial revolution have to be responded to by both countries

with persistent improvements in human capital and solid economic collaboration. Indonesia must therefore enhance its human capital skills and educational level in line with future technological advancements. Japan is the right partner to assist Indonesia in enhancing the quality of its human capital and infrastructure. Vocational training in close collaboration with Japanese companies (including work experience in Japan) should be further accelerated. Human resource development for engineering and manufacturing industries in Indonesia will remain an important agenda for both governments and companies.

All of these processes have to be environmentally friendly and follow the sustainable development principles of the green economy.