

Policy Proposal for the New Administration

— 2045 Vision: To Be in the World's Top 5 Economies —

October 2019

The Jakarta Japan Club

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[Introduction]

In 2018, Japan and Indonesia marked the 60th anniversary of the establishment of diplomatic relations, and various commemorations took place. As one commemorative project, with financial support from the Japanese government and with the United Nations Development Program (UNDP) Indonesia Country Office and the Economic Research Institute for ASEAN and East Asia (ERIA) as implementing organizations, the report by Indonesian and Japanese experts “Indonesia-Japan 2045: A Joint Project of Two Maritime Democracies”¹ was compiled. The main message of this Project 2045 is “Our Common Future.” Based on text concerning the two countries’ existing visions, it speaks of factors that will make possible the route towards such goals and their accomplishment.

Japan and Indonesia share the goal of both being ranked in the global top 5 in GDP in 2045. The Vision Indonesia 2045 set by the Indonesian government also has Indonesia’s GDP in the global top 5. As the path to realize this, Project 2045 speaks of the necessity of strengthening the economy through investment, human resource development, infrastructure development, and strengthening regional and global supply chains in Indonesia and Japan.



Top 5 GDP in 2045

JJC companies want to contribute along with the new administration to realization of Indonesia’s maximum economic growth based on the Project 2045 perspective and steady growth towards the 2045 goals.

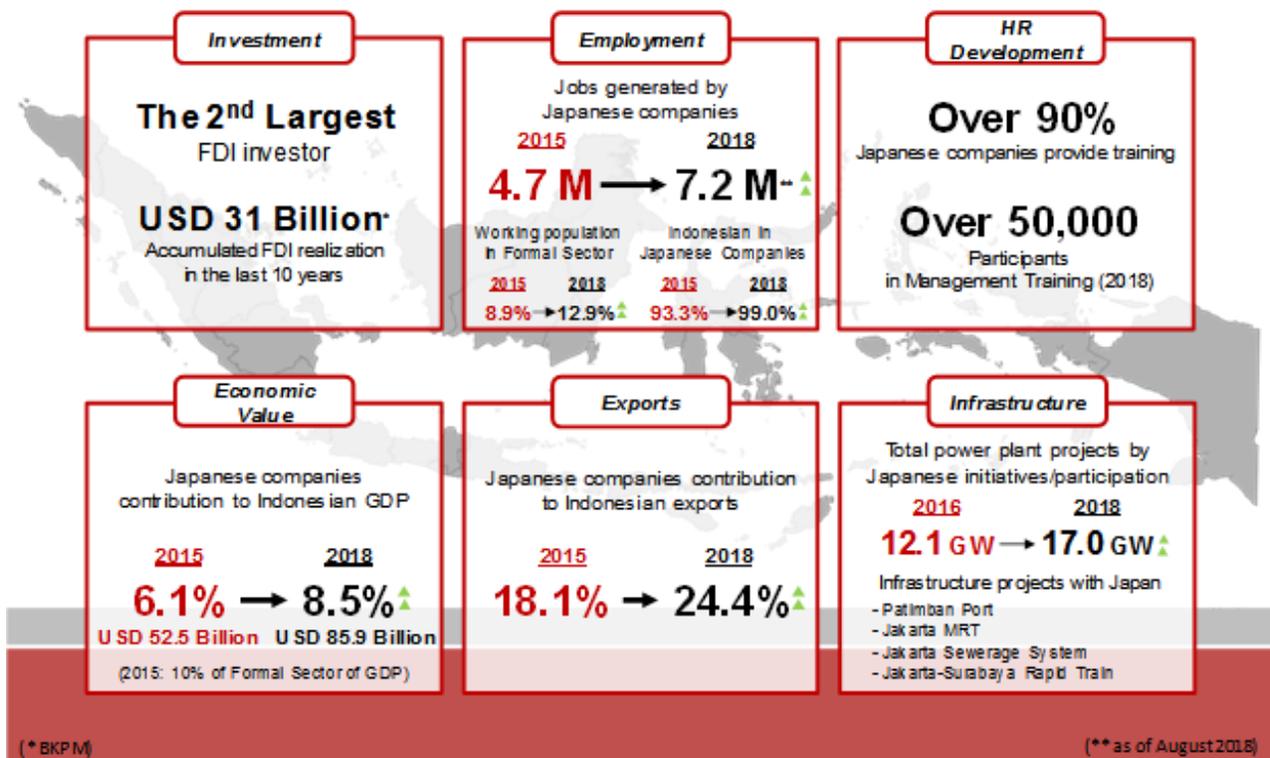
¹ <http://www.eria.org/publications/report-of-project-2045-for-joint-partnership-towards-our-common-future-a-joint-project-of-two-maritime-democracies/>

Japanese companies have been investing in Indonesia since the beginning of the 1970s. Japan is the 2nd largest FDI investor in terms of accumulated FDI realization over the last 10 years. There are more than 1,900 Japanese companies in Indonesia, mainly in the automobile and electrical industries, etc., and they are building robust supply chains. Furthermore, Japanese companies do not merely produce in Indonesia, they also perform technology transfer, foster Indonesian technicians, and contribute to raising the general technology level of local industry. So far, Japanese companies have put down roots in Indonesia and continuously worked to build supply chains and human resources, so Japan and Indonesia have built a good win-win relationship. As of 2018, Japanese companies contribute 8.5 percent of Indonesia's GDP, employ 7.2 million people, and handle 24.4 percent of Indonesia's exports.

In addition, with Indonesia's current high economic growth proceeding, responses to new issues, such as adding high value to industrial activity and responding to environmental problems, are necessary. Japanese companies during Japan's own high economic growth process have experienced the struggle of facing and overcoming problems like those of Indonesia.

Therefore, JJC companies want to contribute to Indonesia's further economic development as partners who share issues and can solve them together.

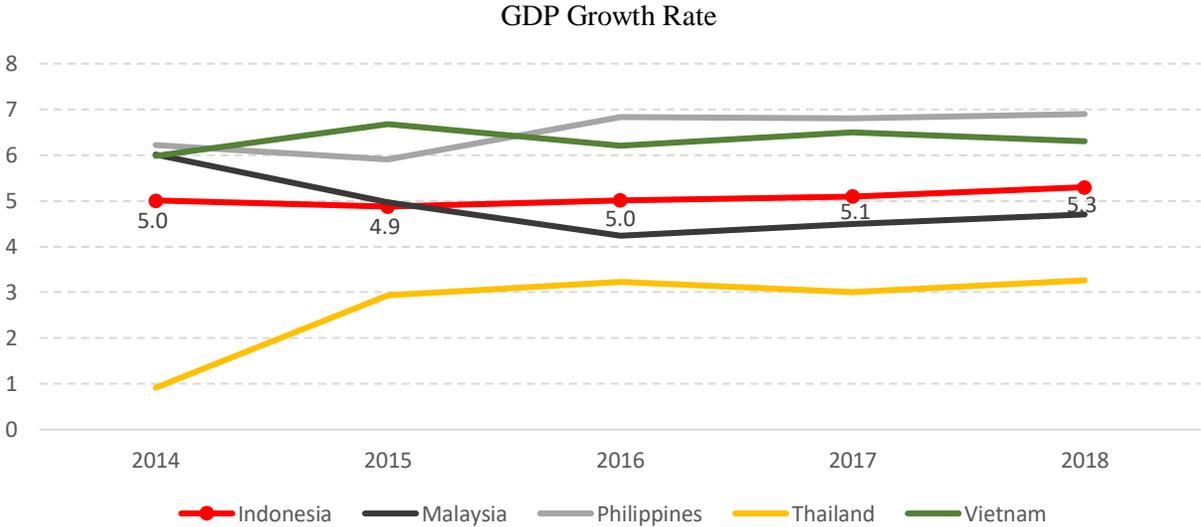
The Economic Contribution of Japanese Enterprises to Indonesia



[Indonesia’s economic growth prospects and issues that should be overcome]

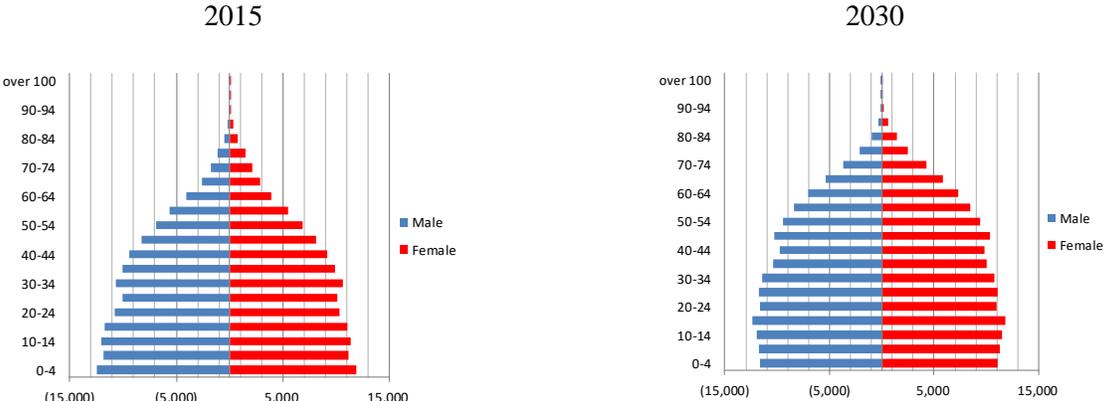
1. Indonesia’s economic growth prospects

Indonesia is Southeast Asia’s largest economy. Since overcoming the Asian currency crisis during the latter half of the 1990s, it has achieved remarkable economic growth. It is Southeast Asia’s only G20 member country, and as a presence that continues to lead Southeast Asia, further prosperity and leadership are expected. Despite rising global uncertainty, Indonesia’s GDP is growing steadily. In recent years it has maintained 5 percent GDP growth, and the growth rate is on a rising trend. In addition, the demographic dividend (demographic bonus) is expected to continue until 2030, and because the percentage of the population accounted for by the middle class is increasing, continued sustained development as medium-to-high income country is expected.



Source: IMF World Economic Outlook Database (WEO)

Indonesia’s population prospects



Source: UN's World Population Prospects 2019

In order to make Indonesia's economic growth sustained and to achieve maximum economic growth, it is necessary to work to strengthen Indonesia's competitiveness through improvement of the current account balance, improvement of labor productivity, promotion of employment, improvement of the business environment and attractiveness of investments, and further enhancement of infrastructure.

2. Issues that should be overcome

2-1. Improvement of current account balance

Indonesia's economy is growing steadily, but since the current account balance shifted to negative in 2012, it has remained negative, so improvement has not been able to be made. One cause making the current account balance negative is that the trade balance is in the red. In trade, most of the parts that could be a source of added value in manufacturing are imported. It is expected to bring about further worsening of the trade balance, as the domestic market expands, imports increase and the rupiah falls, raising import prices. In order to improve this, it will be necessary to promote exports, and furthermore competitive export products will be necessary. In the current situation, if there were an attempt to improve the trade balance by restraining imports, there is concern it would impact supply chains, raising costs and delaying manufacturing, so it might affect not only exports but also domestic markets. In order to realize export promotion, it will be necessary to work on improvement of labor productivity, promotion of employment, improvement of the business environment and the attractiveness of investments, and further enhancement of infrastructure.

In addition, as a resource-rich country, it exports resources, yet it also imports a considerable amount of resources. Even natural gas, which is currently in export position, may switch to import position in 2025 due to rising domestic demand, so it is possible that the trade balance will worsen in the energy field too. Furthermore, the University of Indonesia's Indonesia Economic Outlook², points out the possibility that fuel subsidies for gasoline, etc., will pressure government budgets. The energy field requires longer development periods and so on, so from a longer-term perspective, it is desirable that the favorable foundation of Indonesia's economic activity be maintained.

² <https://www.lpem.org/wp-content/uploads/2018/11/Indonesia-Economic-Outlook-2019.pdf>

2-2. Improvement of labor productivity

According to the Asian Productivity Organization's APO Productivity Database 2018 Version 2³, Indonesia's 2016 rate of labor productivity increase was lower than that of surrounding countries, so improvement is necessary. To perform export promotion in order to improve the trade balance, raising labor productivity and increasing industrial competitiveness are essential. Along with current efforts to increase the efficiency of industrial activity and make human resources more sophisticated, it is desirable to work to enhance supporting industries that become a source of added value, attract companies with advanced technologies, and create innovation. In addition, it is necessary to enhance the competitive environment of domestic markets, including promotion of foreign direct investment, and to cultivate industrial competitiveness.

Labor productivity growth in 2016	
Indonesia	1.37%
Malaysia	2.68%
Thailand	4.39%
Vietnam	5.28%

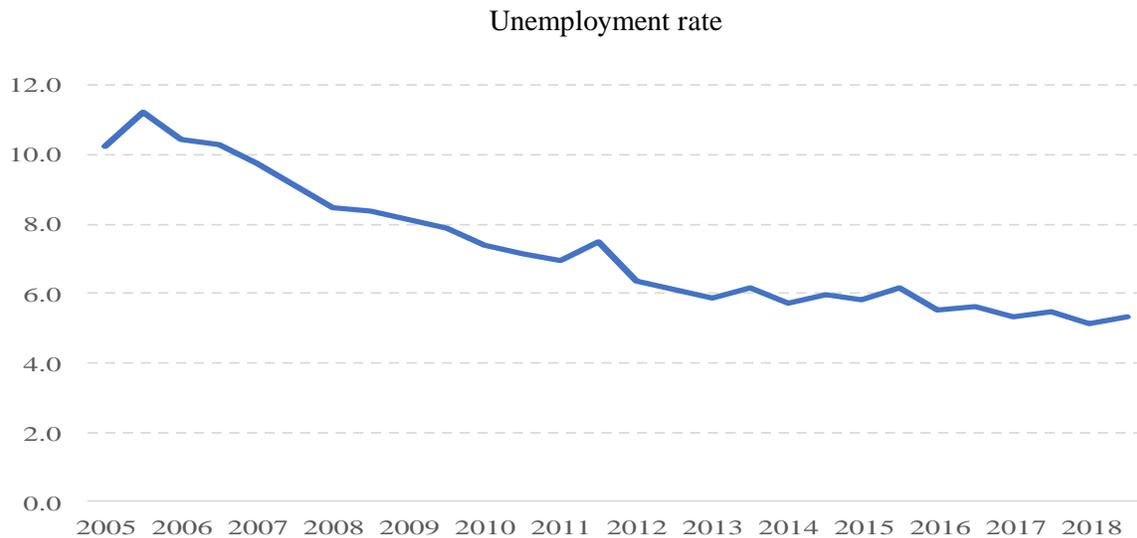


Image source: PT. Toyota Motor Manufacturing Indonesia website

³ <https://www.apo-tokyo.org/wedo/productivity-measurement/>

2-3. Promotion of employment

In Indonesia, the unemployment rate has been on a downward trend annually since 2005, and the government's policies to help create employment can be considered as a success. However, the unemployment rate in some regions or the unemployment rates for younger people or for SMK graduates are high. The Indonesian government further attempts to promote employment by increasing the GDP growth rate. Bappenas's KEBIJAKAN PENDIDIKAN DAN PELATIHAN VOKASI 2020-2024⁴ projects that if a GDP growth rate of 5.3 percent is achieved in 2019, the unemployment rate of 5.34 percent (2018) can improve to 4.8–5.2 percent in 2019. In addition, initiatives on employment promotion related to vocational training, such as SMK revitalization and the link and match program, are implemented. JJC companies also recognize that expanding industrial scale to absorb the employment that the Indonesian government is working on and enhancing vocational training are very effective. Through employment promotion and expansion of industrial scale synchronously creating a virtuous circle, it can be expected that there will be expansion of domestic markets and promotion of exports, becoming drivers of economic growth.

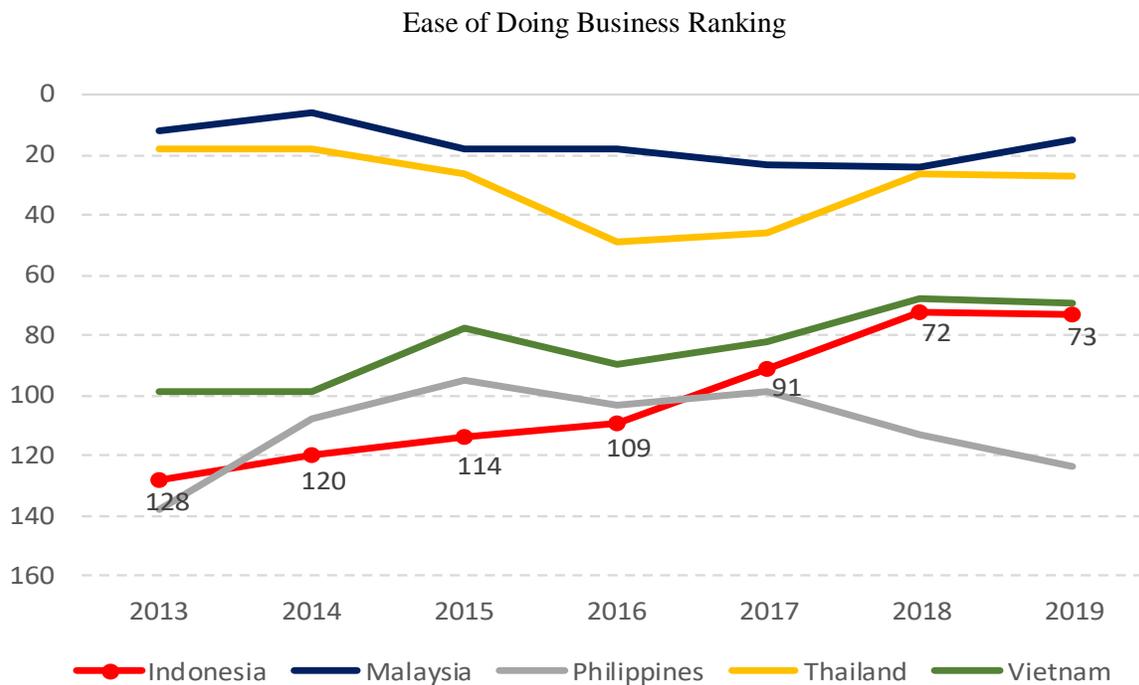


Source: Badan Pusat Statistik

⁴ http://binalattas.kemnaker.go.id/RAKOR-VOKASI-KL-2019/Bappenas_Evaluasi%20dan%20Kebijakan%20Vokasi%202020-2024_v0.pdf

2-4. Improvement of business environment and attractiveness for investments

According to the World Bank's "Doing Business 2019"⁵, Indonesia's ranking continues to rise, and the business environment is shown to be steadily improving. In a JBIC survey⁶, Indonesia was number five among countries with good medium- to long-term prospects, and while Japanese companies continue to find Indonesia very attractive, it is less attractive than Thailand and Vietnam. In a JETRO survey⁷, the rate of business expansion in the coming one to two years is on a downward trend. Within a global supply chain, new or additional investment will be made in the region deemed most effective after objective analysis from multiple perspectives. Therefore, Japanese companies engaged in business activities in Indonesia continue to work every day to accomplish numerous successes along with Indonesia. Coupled with improvement of Indonesia's business environment and attractiveness for investments, they yearn for new or additional investment from Japan to increase. In addition, with improvement of Indonesia's business environment and attractiveness for investments, through employment promotion and expansion of industrial scale synchronously creating a virtuous circle, as noted above, it can be expected that there will be expansion of domestic markets and promotion of exports, becoming drivers of economic growth.



Source: World Bank 'Doing Business' report

⁵ <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2019>

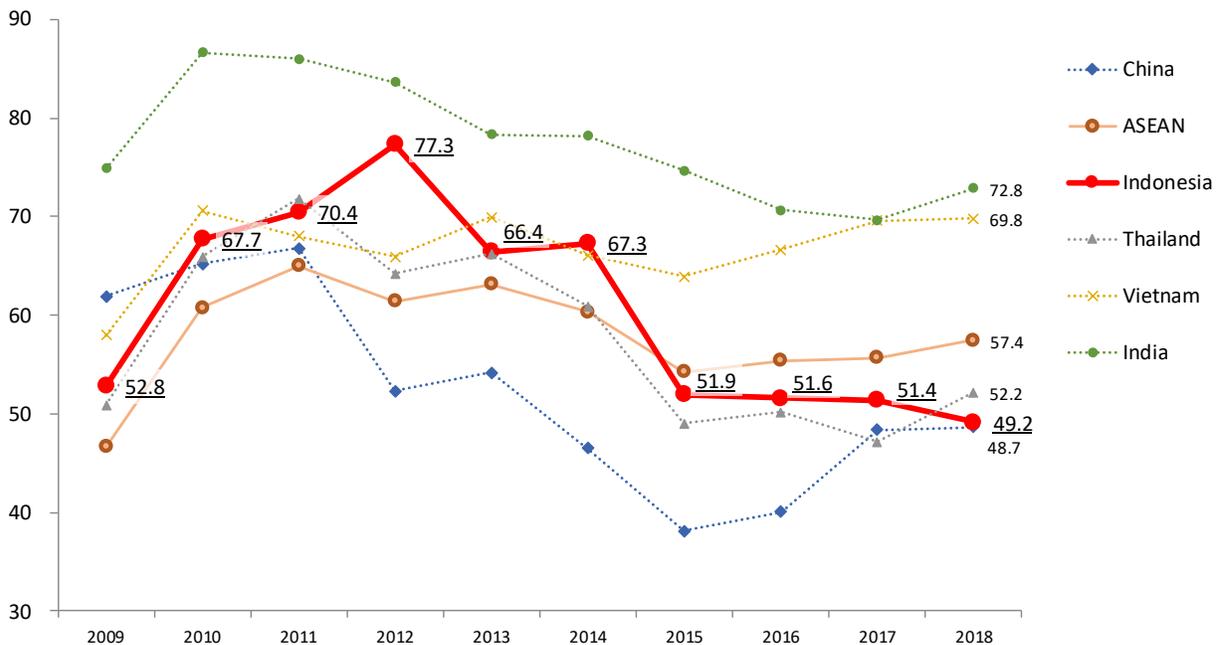
⁶ <https://www.jbic.go.jp/en/information/press/press-2018/1126-011628.html>

⁷ https://www.jetro.go.jp/ext_images/en/reports/survey/pdf/rp_firms_asia_oceania2018.pdf

JBIC Report 2018: Promising Countries/Regions for overseas business over medium-term

Ranking		Country/Region (Total)	No. of Companies		Percentage Share(%)		
2018	← 2017		2018	2017	2018	2017	
			431	444			
1	—	1	China	225	203	52.2	45.7
2	—	2	India	199	195	46.2	43.9
3	↑	4	Thailand	160	153	37.1	34.5
4	↓	3	Vietnam	146	169	33.9	38.1
5	—	5	Indonesia	131	147	30.4	33.1
6	—	6	US	124	116	28.8	26.1
7	—	7	Mexico	59	81	13.7	18.2
8	—	8	Philippines	43	47	10.0	10.6
9	—	9	Myanmar	37	40	8.6	9.0
10	↑	12	Malaysia	36	26	8.4	5.9
11	↑	16	Germany	25	13	5.8	2.9
12	↓	10	Brazil	24	28	5.6	6.3
13	↓	10	Korea	22	28	5.1	6.3
14	—	14	Taiwan	19	17	4.4	3.8
15	↓	13	Russia	16	19	3.7	4.3
16	↓	14	Singapore	15	17	3.5	3.8
17	↑	20	Cambodia	13	9	3.0	2.0
18	↓	18	Australia	12	10	2.8	2.3
19	↓	17	Turkey	9	12	2.1	2.7
20	↑	23	Laos	7	5	1.6	1.1
20	↑	32	France	7	2	1.6	0.5

JETRO Survey 2018: Proportions of firms expecting to expand in the next 1 to 2 years



2-5. Further enhancement of infrastructure

In the first term of the Jokowi Administration, active infrastructure development has been performed. The Japanese government and Japanese companies are also contributing to Indonesia's infrastructure development through ODA projects and corporate activities, such as development of the MRT and Patimban Port, development of the Port of Tanjung Priok, development of industrial parks, etc. On the other hand, according to the World Economic Forum's The Global Competitiveness Report 2018⁸, Indonesia's infrastructure ranking is 71st, and compared to surrounding countries, it needs to proceed with further infrastructure development. Additionally, in the World Bank's Logistics Performance Index Global Ranking 2018⁹, Indonesia is 46th, and at the same time as infrastructure development, logistics need to be improved.

Infrastructure Ranking

Country	Ranking
Malaysia	32
Thailand	60
Indonesia	71
Vietnam	75
Philippines	92

Source: WORLD ECONOMIC FORUM, The Global Competitiveness Report 2018

Logistics Performance Index Ranking

Country	Ranking
Thailand	32
Vietnam	39
Malaysia	41
Indonesia	46
Philippines	60

Source: World Bank, Logistics Performance Index Global Ranking 2018



Image source: Mitsui & Co website

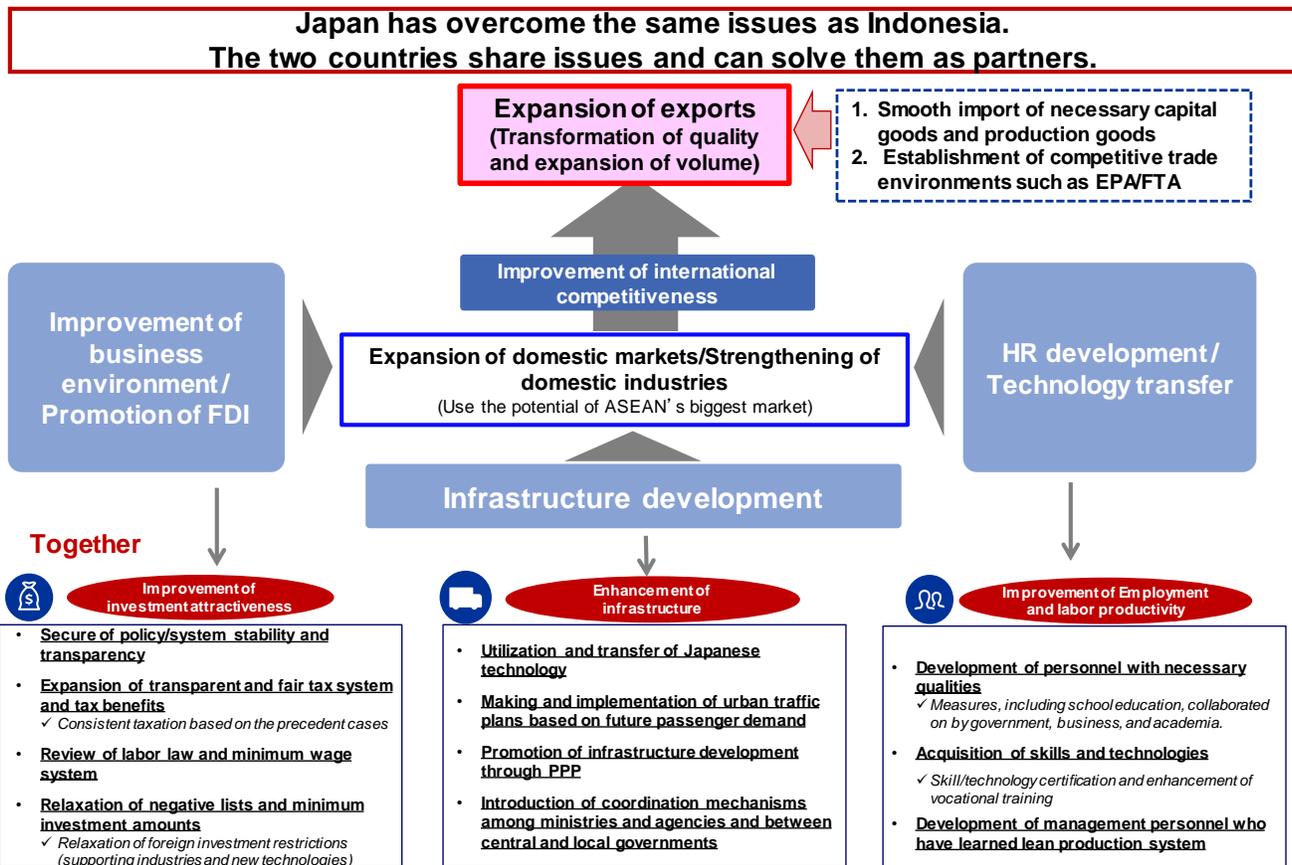
⁸ <https://www.weforum.org/reports/the-global-competitiveness-report-2018>

⁹ <https://lpi.worldbank.org/international/global>

[Policy proposal and JJC’s contribution to be in the world’s top 5 economies in 2045]

Japanese companies during Japan’s own high economic growth process have experienced the struggle of facing and overcoming problems like those of Indonesia. JJC companies want to contribute to Indonesia's further economic development as partners who share issues and can solve them together.

In order to overcome Indonesia's issues and achieve sustained and maximum economic growth, it is necessary to strengthen Indonesia's international competitiveness through expansion of domestic markets and strengthening of domestic industry, while utilizing the potential of ASEAN’s biggest market through improvement of business environment /promotion of FDI, human resource development/technology transfer, and infrastructure development. And based on above, it is necessary to expand exports by transforming the quality of Indonesian industry and expanding its quantity. JJC makes its own policy proposal and contribution for Indonesia to be a world’s top 5 economy in 2045.



1. Improvement of business environment and promotion of FDI

For the strengthening of Indonesia's international competitiveness and its sustained development, promotion of maximization of current economic activity and input of new economic activity (so-called FDI) is necessary. If making business operation easy, securing domestic market scale and growth and further attractiveness as an export hub are not prepared, it is probably difficult to choose Indonesia as investment destination now, when economic activity is globalized. In other words, what is required is a business environment with high transparency and predictability, high flexibility in doing business, and enhanced tax benefits and other preferential treatment systems. Furthermore, being open to foreign capital and having a competitive environment in domestic markets is important for strengthening international competitiveness. Japanese companies have been making sustained investment in Indonesia. Japan is the 2nd largest FDI investor in accumulated FDI realization over the last 10 years. As of the end of 2018, the investment balance had reached 30 billion USD. Taking Indonesia's economic scale into account, Indonesia probably still has much more FDI potential left. Furthermore, looking at the trend in Japan's investment balance since the end of 2014, although the growth rate is about equal to surrounding countries, the rate of increase is even greater in Vietnam and Thailand than in Indonesia, so we can say that in recent years the region is being chosen for investment from Japan.

Balance of FDI from Japan

Country		Indonesia	Malaysia	Philippines	Thailand	Vietnam
Ease of Doing Business Ranking 2019 by World Bank Group		73rd	15th	124th	27th	69th
Balance of FDI from Japan (Unit : USD bil)	2018 (A)	30.39	16.63	14.52	68.97	16.97
	2014 (B)	23.77	13.74	11.17	52.59	12.01
	A-B	6.62	2.88	3.36	16.38	4.96
*Data Source : Bank of Japan	Growth Rate (A/B)	128%	121%	130%	131%	141%

(Policy proposal concerning improvement of business environment and promotion of FDI)

• Ensuring stability and transparency of policies/systems

In JJC, the most frequent topics of discussion are policies/systems that have been newly established or are about to be established. In particular, there are many cases of responding to policies/systems suddenly announced without consistency with the regulations of relevant ministries and agencies or with unclear definitions of operational rules, and of responding to get a clear interpretation when officers in charge have given conflicting interpretations, etc. In the World Bank's Foreign Investor Perspective and Policy Implications¹⁰, the two highest-priority factors for investment decisions are “political stability and security” and “the legal and regulatory environment.” Therefore, ensuring stability and transparency of policies/systems is not only the foundation of stable business operation for those already doing business in the country, but also

¹⁰ <http://documents.worldbank.org/curated/en/169531510741671962/Global-investment-competitiveness-report-2017-2018-foreign-investor-perspectives-and-policy-implications>

extremely important for calling in new foreign direct investment that brings about innovation contributing to export-driven growth.

• Improvement towards a transparent and fair taxation system, expansion of internationally competitive tax benefits, improvement of tax capture ratio and expansion of taxation base

Regarding improvement towards a transparent and fair taxation system, we specifically recommend the following.

First, tax administration based on clear and predictable rules is important for companies to smoothly carry out activities in Indonesia, but in fiscal year 2016 the number of tax cases brought to tax court in Indonesia was 12,852. This is a very large number in contrast to the 245 cases in Japan. Additionally, in many cases it took a long time until judgment, and it is a big burden on JJC companies carrying out business in Indonesia. In Japan, tax tribunals were introduced about 50 years ago. Along with ensuring proper operation of tax administration through prompt and appropriate case resolution, by disclosing tribunal precedents to the public, consistent taxation based on the precedent case is established. For tax administration based on clear and predictable rules, Indonesia should aim for reform towards consistent taxation based on the precedent case. JJC wants to support such reform.

Furthermore, tax administration shackled to tax revenue targets may be one cause of the increase in tax court cases. Separating the Directorate General of Taxes from the Ministry of Finance as an independent institution should be considered in order to promote tax administration based on law and precedent.

An example of unclear rules is interest on the tax refund due to overpayment. Under the General Provisions and Taxation Procedures Law (KUP), if an objection to a notification of correction amount is approved, payment by the national government of 2 percent interest on the tax refund is stipulated, but government rules (PP) add the condition that if the taxpayer paid before filing the objection, it is not subject to interest. This is a case of a lower law setting a provision that contradicts the intent of a higher law. Consistency with the hierarchy of higher laws and lower laws should be guaranteed. Furthermore, regarding a notification of correction amount that is unpaid at the time the objection is filed, if the objection is not approved, a 50-percent penalty is applied to the unpaid notification of correction amount. On the other hand, the 50-percent penalty is not applied, if it is brought to tax court. However, a 100- percent penalty is applied to the unpaid notification of correction amount, if it is lost in the tax court. Therefore, it is necessary for the taxpayer to pay before filing the objection, but as noted above, government rules (PP) adding the condition that the payment is not subject to interest makes the financial burden on the taxpayer even heavier if it takes a long time to get a judgment.

Taxpayers should also fulfill their duty to pay taxes and help realize the sound national finances that are fundamental to a country. In order to understand complicated tax law and file correctly, tax accountants and certified public accountants should be expanded as specialists to support that, and furthermore, in contrast to Japan's roughly 60,000 tax officials, the number remains too low in Indonesia at about 30,000. Human resource development and system maintenance to improve the quality of taxpayers' filings should be done.

Regarding expansion of internationally competitive tax benefits, we specifically recommend the following.

Amidst an advancing digital revolution in all aspects of society, the so-called Industrial Revolution 4.0, not just Indonesia, but many countries are promoting and competing on corporate research and development, broad basic research, and technology-improvement research in order to achieve innovation. Amidst this, as for the “Corporate tax benefits for human resource development and research and development” (PP Nomor 45 Tahun 2019) implemented this year, public and private should unify for early utilization of the system, such as clarification of requirements and their deregulation. Additionally, in order to further expand and strengthen the industrial base cultivated so far mainly in manufacturing, it is necessary to eliminate or lower amount of minimum investment for a tax holiday (100 billion rupiahs), to promote utilization through clarification and/or deregulation of the requirements for investment in new businesses.

Furthermore, in order to stimulate the flow of foreign direct investment into Indonesia and promote industrial clusters, when global corporations select investment countries for business development, each country’s tax benefits are an important criterion for the decision. Comparison with the tax benefits of Malaysia, Thailand, Vietnam, and other ASEAN countries and ongoing improvement are important. For example, in Malaysia, where trade balance and current account balance surpluses continue due to electronics industry clusters and exports, the deduction for qualifying capital expenditure is 60 percent versus Indonesia’s 30 percent and the corporate tax rate for SMEs is 17 percent versus Indonesia’s 25 percent. Elimination or lowering of the tax rate of PPh22 with its internationally-rare high cash flow burden on taxpayers, and changing the calculation and correction methods for estimated taxes under PPh25 are essential.

Concerning the improvement of tax capture ratio and expansion of the taxation base, we specifically recommend the following.

For balanced, sustained economic development, fair and stable financial resources for infrastructure improvement is necessary. As for direct taxation, Indonesia has 133 million employed persons, but only 18 million people filed tax returns, so the tax capture ratio is low. In light of the fact that achieving fair tax collection will also necessitate improvement of the number of tax officials, raising the rate on an indirect tax (VAT) with a broader taxation base is probably suitable for now.

Furthermore, through further advancement of digital government in the taxation field, initiatives are needed to make various procedures simpler and more efficient, which will improve administrative costs, and to raise the direct tax capture ratio by creating an environment in which it is easy to pay taxes.

• **Respond to employment problems through amendment of labor law, review of minimum wage system, and enhancement of social security system**

In order for companies in Indonesia to operate internationally competitive business, we recommend the following from the perspectives of labor and social security.

- 1) Although on the one hand labor law exists to protect workers, on the other hand it aims to improve labor productivity and secure outstanding human resources to meet the needs of business. Therefore, it should stipulate minimum standards for the employment of workers.
- 2) The minimum wage is clearly positioned as part of the safety net, and the central government shall specify minimum wages for each province, regency, and city. Other than that, eliminate all minimum wages, including by sector.
- 3) Concerning the wage system, establish a wage system based on labor productivity, make it responsive to work in units of time and units of results, and review overtime pay so that it is standardized.
- 4) As for termination compensation, basically it should be set independently by each company, and if set by law it should set only the minimum standard. Furthermore, from the standpoint of worker protection, revising it to a social security system that includes unemployment insurance and enhancing the content will supplement the existing termination compensation and enable simple, appropriate, and smooth performance of hiring and firing. Furthermore, in order to output desired human resources, implement various types of human resource development and labor productivity improvement programs funded by social security costs.
- 5) FDI promotion and the employment of foreign nationals cannot be considered separately. In order to work for promotion and maintenance of FDI, policies to eliminate or relax restrictions on employment of foreign human resources with certain abilities and skills are necessary. Furthermore, by performing control of foreign workers, such as work permits, applications, renewals, cancellation, etc., at a single government agency (for example, the Directorate General of Immigration of the Ministry of Law and Human Rights or the Ministry of Manpower), procedures can move forward accurately and smoothly.
- 6) The responses of relevant ministries and agencies should be unified so that when foreign workers and business visitors have prescribed work permits or business visas, they can smoothly undertake lawful activities equally in any part of Indonesia.

• **Relaxation of Negative List and elimination of restrictions on sectors not on Negative List**

According to the World Bank Policy Note “what drives Foreign Direct Investment in Indonesia?”¹¹ the correlation between deregulation and investment promotion has been confirmed. Furthermore, the World Bank’s “Foreign Investor Perspective and Policy Implications” points out that FDI has positive effects on domestic businesses in the country. Moreover, “OECD Investment Policy Reviews Southeast Asia”¹² says that since 2010, FDI deregulation has progressed farther in Malaysia and Vietnam than in Indonesia, and

¹¹ <http://documents.worldbank.org/curated/en/360411540797707636/Policy-Note-What-drives-Foreign-Direct-Investments-in-Indonesia>

¹² <https://www.oecd.org/daf/inv/investment-policy/Southeast-Asia-Investment-Policy-Review-2018.pdf>

points out that the stricter the regulations on the service sector, the lower labor productivity tends to be. In addition, the World Bank's "Service Sector Reform and Manufacturing Productivity: Evidence from Indonesia"¹³ points out that Indonesia has high logistics costs because of service regulations, and there is a negative impact on manufacturing productivity as well. Besides that, in Indonesia there are cases of specific sectors not on the Negative List that have restrictions applied by ministerial order, making investor decisions difficult. For example, foreign-capitalized forwarders, based on Transportation Ministerial Regulation No. 47/2015 and No. 49/2017, are required to have a minimum amount of capital dedicated to the sector and are prohibited from holding multiple licenses. Furthermore, a bill concerning tobacco is currently being debated. The bill would not only set tariffs on imported tobacco, it would limit the maximum ratio of foreign capitalization to 30 percent, possibly without grandfather clause. Easing of the Negative List and elimination of sector restrictions are necessary for promotion of investment. JJC until now has been proposing as special issues clarification of interpretations in the construction sector, easing of restrictions on shop floor area based on business situation in the retail sector, easing of regulations on forwarders to contribute to cost reduction and greater efficiency in logistics, and so on.

- **Relaxation of some regulations on minimum investment amounts for foreign capital**

In Indonesia, if even a small amount of foreign capital enters, it means classification as foreign-capitalized, and all foreign-capitalized companies are treated as major corporations, so payment of 10 billion rupiahs is required. That is a large minimum investment compared to surrounding countries and may hinder investment. For example, "MIZUHO Financial Group – MIZUHO Research & Analysis No. 12, 2017"¹⁴ says that in the automobile industry, even though about the same number of OEM and Tier 1 companies exist in Thailand as in Indonesia, Thailand has 1,700 Tier 2-3 companies while Indonesia only has 1,000. If the same number of Tier 2-3 companies as in Thailand were to enter, investment in 700 new companies would be expected in the automobile industry and supporting industries alone. Assuming average employment of 200 people based on JETRO data, it could generate new jobs for 140,000 people. Furthermore, companies in the digital sector, the creative sector, and other niche technology sectors are thought to not need large investments in equipment and so on. Therefore, easing minimum investment restrictions would probably promote the strengthening of Indonesia's supporting industries and the touting of new technology sectors, etc.

¹³ <http://documents.worldbank.org/curated/en/207801468049736587/Service-sector-reform-and-manufacturing-productivity-evidence-from-Indonesia>

¹⁴ <https://www.mizuho-fg.co.jp/company/activity/onethinktank/vol012/pdf/06.pdf>

- **Deregulation of and incentives for investments in energy fields such as renewable energy**

“APEC Energy Demand and Supply Outlook 7th Edition 2019”¹⁵ says that Indonesia's energy demand will continue to increase, and Indonesia is one of the world's leading exporters of coal and LNG, so it will be necessary to balance energy resources between exports and rapid growth in domestic demand. According to materials from Indonesia's Ministry of Energy and Mineral Resources, even natural gas, which is currently in export position, may switch to import position in 2025 due to rising domestic demand, so it is possible that the trade balance will worsen in the energy field too. Furthermore, in addition to needing to restrain greenhouse gas emissions as a measure against global warming, air pollution is pointed out recently as a problem in Indonesia. Moreover, in August 2019, widespread blackouts occurred on Java, generating big impacts on economic activities and people's lives. In order to address these problems, it will be important to work on promotion of further development of energy resources, promotion of the adoption of renewable energy and other clean energy, and improvement of power stations and systems. To further promote these, promoting entry by foreign capital and by the private sector will likely be effective. For example, investment in renewable energy has great potential, but with current FIT pricing it is very difficult for private-sector companies to invest. We would like to hope for review of FIT pricing so it will be an incentive that draws investment. Furthermore, concerning investment in the power generation sector, we would like to hope for promotion of investment in the sector through permission to transfer or sell stock before the commercial operation date, clarification of the bearing of risks in the event of force majeure, clarification of bidding systems and contract types, and disclosure of by-laws, guidelines, and examination processes related to PP No. 14 2017.

¹⁵ <https://aperc.ieej.or.jp/publications/reports/outlook.php>

ASEAN Regulation Comparison

		Indonesia		Thailand	Vietnam
		Ministry			
NEGATIVE LIST for foreign investors *Presidential Decree No.44/2016 (DNI)					
(1) CONSTRUCTION		BKPM, PUPR	<For only Public Project > Contract amount > Rp 50 billion	<Project requiring the use of special technology, expertise, etc.> Minimum capital: THB 500 million (Equivalent to IDR 225 billion)	Not Regulated
(2) RETAIL		BKPM, TRADE	Store space > 2,000m2	Total minimum capital: THB 100 million (Equivalent to IDR 45 billion); or Minimum capital of each store : THB 20 million (Equivalent to IDR 9 billion)	Not Regulated except... Cigarettes, Sugars, Pharmaceutical products, Precious metals & stones
TAX					
(1) PPh22 *No.110/PMK.010/2018			Import goods price × 2.5%	Not Regulated	Not Regulated
(2) PPh25 *No.208/PMK.03/2009	frequency		Monthly	semi-annual	Quarterly
	calculation		Based on previous year's tax amount	Based on Taxpayer's own estimation	Based on Taxpayer's own estimation
	penalty		-	in case that estimation<actual amount×75%	in case that estimation<actual amount×80%
MINIMUM CAPITAL REGULATION *BKPM Decree No.6 / 2018 *SME Law No.20 / 2008					
FORWARDING *Reg. of Minister of Transportation No.49 / 2017		BKPM	Total Investment: IDR 10 billion Paid-up Capital: IDR 2.5 billion	Minimum Capital: THB 2million (Equivalent to IDR 0.9 billion)	Not Regulated except... Financial services, Telecommunication, Hospital, Property, Marine transport, Air transport
	(1) Obtain Multi Licenses		Prohibited	Not Regulated	
	(2) Max Foreign Capital share		67%	International: 100% Domestic: 50%	Not Regulated
(3) Min Paid-up Capital			USD 1mil	Not Regulated	
ELECTRICITY					
*MEMR Reg 50/2017		ESDM			
(1) FTI price (Solar)			6.68(US cents/kWh)*	18.1(US cents/kWh)	9.35(US cents/kWh)
(2) Renewable Energy ratio			5.9%(3,740MW)	16.8%(7,400MW)	1.3%(590MW)

*Tariff is determined based on the Area Basic Generation Cost(BPP): 6.68(US cents/kWh) is 85% of national average BPP

(JJC action)

• Ongoing opinion exchanges with Indonesian government

It is expected that much study from various perspectives is necessary for business environment improvement and FDI promotion, and to enable smooth study by Indonesian government officials, JJC companies will conduct ongoing opinion exchanges with Indonesian government officials. Furthermore, it will appropriately provide information as needed.

• Briefings in collaboration with the Indonesian government on policies/systems for companies

Along with recommending ensuring the stability and transparency of policies/systems, we realize that it is also necessary to promote appropriate measures to increase understanding of policies/systems by JJC Japanese companies. Therefore, we actively hold briefings in collaboration with the Indonesian government on policies/systems for companies.

• Seminars and/or information transmission concerning investment promotion

JJC companies, as members of the Indonesian community, will actively hold seminars and/or transmit information concerning investment promotion.

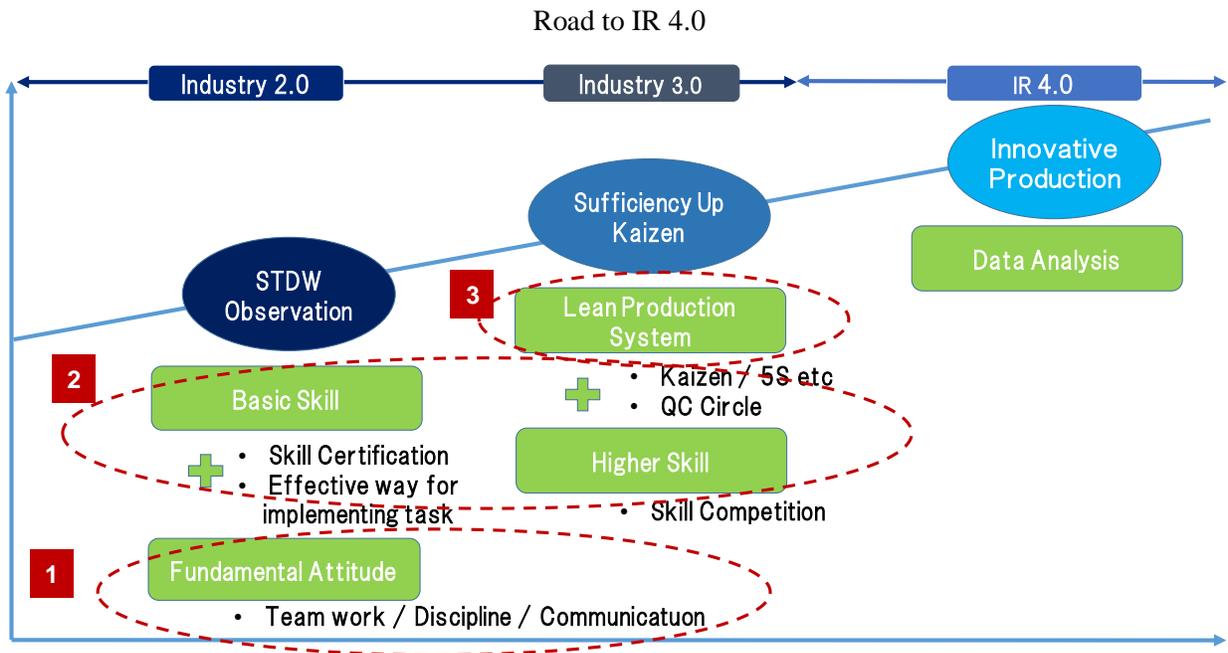
2. Human resource development and technology transfer

In the Jokowi Administration, human resource development is strongly promoted as one of the highest priorities. For JJC companies also, in order to strengthen Indonesia's international competitiveness and accomplish sustained economic development, it is necessary to “make better things” and it is essential to further improve productivity. “Developing human resources” is the most important foundation for this.

The founder of a globally-successful Japanese company left behind the words, “Business is about developing people” and “Monozukuri [making things] is about developing people.” This has been passed down to today’s Japanese companies and has broadly taken root not just in big corporations, but in medium and small businesses as well. For example, in manufacturing, it is based on the idea that no matter how far mechanization advances, it is people who make business and make things, so if we do not foster people, we cannot operate a business. Japanese companies spent many years, through working by hand, thoroughly probing the principles and rules of monozukuri, maintaining high skills (skills and craftsmanship), and as a result of continuously pursuing efficient manufacturing methods that utilize those skills of artisanship, have been able to generate internationally competitive products. Of course, it is important to maintain that manufacturing and management know-how at a high level every day, and there is no end to improvement. We think that Japanese companies engaged in manufacturing here transferring the skills and craftsmanship, and efficient manufacturing methods they have cultivated in forms suited to Indonesia's situation will make a big contribution towards Indonesia becoming a global top 5 economy. On the other hand, we also think that achieving this will require patient, sustained work over a medium to long timespan.

As of 2018, Japanese companies have created employment for 7.2 million people, and more than 90 percent Japanese companies are carrying out human resource development. Furthermore, they not only perform human resource development for their own employees, they provide supplier companies operated by Indonesians with technical guidance and so on, contributing externally as well. JJC companies do not merely train technical aspects, but in order to maximize Indonesia's human resources capability in global competition, they also carry out human resource development that equips people with qualities for demonstrating their ability in industry: independence, communication, teamwork, and 5S (Sort, Set in order, Shine, Standardize, Sustain). Furthermore, as part of contributions to human resource development at universities, through Japanese ODA they contribute to ensuring the number of students and improving education and research quality through technical cooperation and yen loans for improvement of educational facilities and improvement of research capability at the engineering departments and so on of Bandung Institute of Technology, Hasanuddin University, and Gadjah Mada University.

Amidst this environment, industry today is said to be in a state of Industrial Revolution 4.0 through drastic innovation of IT tools. Three steps are necessary for that to happen. (1) Learning the basic behaviors discipline and teamwork, (2) Acquiring skills on top of that, (3) Efficiently utilizing those skills as an organization and raising productivity. Because of this foundation, Industrial Revolution 4.0 will generate effects, leading to radical strengthening of Indonesia's companies and human resource development. We recommend the following.



(Policy proposals concerning human resource development and technology transfer)

• Development of human resources furnished with the qualities (discipline, basic knowledge) required by manufacturing workplaces[1]

What is necessary for employees who work in manufacturing workplaces is (1) observance of discipline, (2) teamwork, and (3) basic academic ability, mainly mathematical logical thinking ability. Companies should also carry out vocational training, but if human resources who have those things before they are hired are abundant, companies can specialize in the next step, the acquisition of technology and skills, and acceleration of human resource development can be expected. In Japan's case, school education emphasizes those perspectives, and in Indonesia as well, government, industry, and educational institutions, need to collaborate to consider the proper form for school education.

Furthermore, in high schools, SMKs, and universities sending forth human resources with specialized knowledge for various occupations in addition to the above-described qualities, it is crucial that education that grasps industry needs take place. In Bappenas's KEBIJAKAN PENDIDIKAN DAN PELATIHAN VOKASI 2020-2024, there is already awareness of that issue. It is necessary to further accelerate the monozukuri education now being carried out through collaboration among industry, SMKs, and universities.

• Further acquisition of skills and technology [2]

In order to perform monozukuri, the necessary skills are important when doing the work. It is necessary to obtain and improve the skills (production members) needed to do the work of actually making a thing and the necessary technology (engineers) to design the thing and decide the manufacturing process. That is one important element that is fundamental to improving Indonesia's labor productivity.

In order to do that, enhancement of vocational training and building frameworks that can confirm technology levels are very important. Nowadays, initiatives to certify the vocational competency of individual companies and international organizations are being carried out with BNSP approval. We recommend effectively collaborating with such existing systems at the national level, extending them to every industry, and thoroughly realizing a national skills certification system.

Furthermore, in addition to the above, in order to enhance the foundation for stable corporate activity, for example, enhancement of specialists in law and taxation could be expected. In order to understand convoluted tax law and file correctly, it would be desirable for tax accountants and certified public accountants to be expanded as specialists to support that.

• Development of management human resources capable of efficient manufacturing workplace operations (lean production system) [3]

Radical gains in productivity cannot be expected merely from human resources who have acquired the qualities needed manufacturing improving their skills and technology. Another important thing that is more essential than anything else is the presence of management human resources who can efficiently get the most out of each human resource who has acquired high ability and work to maximize the organizational effect. Management that works to maximize the organizational effect means the "lean production system," and

developing many such human resources will lead to increased manufacturing productivity for Indonesia as a whole.

For human resource development in Indonesian industry, JJC companies collaborated with the Ministry of Industry on support based on the lean production system in a casting company in Central Java. The development of such management human resources, however, does not happen overnight, and it is important to have initiatives in which each instructor carefully attends to individuals and gradually and patiently guides them through OJT and practical application.

In order to do that, simply learning the theory of lean production systems in a classroom is not enough. Actual guidance and training through practical application in companies is the most important thing. To strengthen Indonesia's competitiveness by raising its productivity, we suggest developing practice-type management human resources.

(JJC action)

Support for supporting industries by the Indonesia Mold and Dies Industry Association (IMDIA)

JJC companies carry out much support of the operation of IMDIA. From 2007 through 2018, 593 instructors passed examinations and 3,556 certified workers have been produced. Furthermore, in the future advanced mold and die manufacturing will be handled in Indonesia, improving the local procurement rate.

[Human resource development for higher education and SMK level]

- **TOYOTA Indonesia Academy and SMK Mitra Industri MM2100**

TOYOTA Indonesia Academy takes SMK graduates and, including the perspective of developing their humanity, develops maintenance technicians with broad and deep knowledge into human resources who will be the leaders of Indonesia's auto industry of the future. Furthermore, SMK Mitra Industri MM2100 is working mainly with local aspirants to raise the ability of Indonesia's young people who have the qualities of discipline and basic academic skills needed in manufacturing.

- **Implementation of SMK instructor training**

JETRO and AOTS, in collaboration with the Ministry of Economy, Trade and Industry, the Ministry of Industry and IMDIA, carry out practical training with machinery used in factories for about 100 SMK instructors every year. From 2019, in addition to training in Indonesia, they have opened a training program in Japan and are working to expand the training program.

- **Support for higher education by the AEM-METI Economic and Industrial Cooperation Committee (AMEICC)**

It has been supporting curriculum development in accordance with industry needs in higher education. For example, it provided curriculum development support in Darma Persada University's industry automation system program and at the same time implemented improvements to CAD, measurement tools, electro-pneumatic education kits, etc. It is continuing to follow up so that the improved equipment is used efficiently and the curriculum develops and improves. Furthermore, at Politeknik STTT Bandung, through seminars on 5S and kaizen along with internships in companies, it is developing human resources that are able to succeed immediately. It has endowed courses at Binus University and Achmad Yani University.

- **Implementation of monozukuri seminars for students**

Along with Perhimpunan Persahabatan Indonesia Jepang (PPIJ), JJC companies hold "monozukuri seminars" for university students. This activity creates understanding in Indonesia of the spirit of monozukuri in Japanese manufacturing and plants Japanese monozukuri culture and the basis of Japanese manufacturing in Indonesia, contributing to the development of Indonesia in the future, including infrastructure improvement and promotion, human resource development, and so on. JJC companies will continue to provide these opportunities as part of its initiatives on industry-academia collaboration.

[Building frameworks for handling human resource development inside companies]

- **Internal training by Japanese companies**

Japanese companies as of 2018 created employment for 7.2 million people and more than 90 percent of the companies performed human resource development for many Indonesians. A number of companies carry out training for Indonesian executive candidate employees in Japan.

- **Training in Japan and dispatch of experts through the Association for Overseas Technical Cooperation and Sustainable Partnership (AOTS)**

AOTS supports training of local executive candidates and technicians by Japanese companies, from 1959 to 2017 carrying out training for 21,436 Indonesians in Japan and 19,045 in Indonesia. Through support by AOTS, contributions to Indonesia's human resource development and promotion of technology transfer to Indonesia will continue.

- **Ongoing implementation of QC Circle (Quality control) Activities**

Each member joins a team and solves on-site problems. Improvement activities in small groups are a very effective means of developing the leaders and members from the perspective of further raising productivity. JJC companies, while performing this on an ongoing basis, also need to carry out ongoing initiatives from the perspective of promoting improvement by sharing the latest cases from other countries through global QC conferences and social gatherings at various companies.

[Initiatives based on lean production system]

- **Support by Japanese companies for Indonesian companies, suppliers, and universities**

As stated in policy proposal [3] concerning human resource development and technology transfer, as efficient manufacturing workplace operation (lean production system), certain JJC companies carry out the following initiatives on an ongoing basis at Indonesian companies, suppliers, and universities.

- i. Support for self-reliance based on lean production system in Central Java**

At an Indonesian casting company in Central Java, production management based on a lean production system is being supported. Specifically, leaders were sent to the company and implemented improvement support for sorting and setting in order inside the factory along with safe and efficient production activity. As a result, productivity improved, and the company raised its level to become a Tier 2 supplier to an automotive manufacturing company.

- ii. Supplier development through local guidance of lean production system**

Not only learning lean production systems in the classroom, but also how to use the systems at actual production sites and operate factories efficiently contributes greatly to productivity improvement, and mainly in the auto industry, where supply chains have a broad range of suppliers, instructor-led practical guidance in lean production systems at company production sites and mutual improvement among companies are being promoted.

- iii. Monozukuri Education support**

At 11 Indonesian universities, lean production system teaching materials are provided and instructors are dispatched, supporting the development of university instructors. Furthermore, for 612 people at 17 suppliers, they go to each company and provide guidance about manufacturing workplace operation based on lean production systems, contributing to increased productivity at each company.

[Support for new systems]

- **Support for Specified Skilled Worker/the Technical Intern Training Program**

JJC companies will provide necessary cooperation to the Japanese and Indonesian governments in order to smoothly dispatch Indonesian human resources to Japan, concerning Specified Skilled Worker created in 2019 as a new status of residence in Japan.

3. Infrastructure development

As touched on in the previous chapter 2-5, active infrastructure development was carried out by the first-term Jokowi Administration. According to a McKinsey survey commissioned by JICA and Bappenas, infrastructure investment of about 3 percent of GDP in 2013–2014, expanded to 4.5-5 percent in 2016–2017. In response to this, the Japanese government and companies have also supported this through the Jakarta MRT and other ODA projects and some large IPP projects on Java. As a result, in addition to the aforementioned, pronounced progress has been seen in improvements in the expressway network and telecommunications infrastructure. On the other hand, the same McKinsey survey estimates that 7,000 trillion IDR of infrastructure investment needs remain for the 5 years of the second term of the Administration. Based on the experience of the Japanese government and corporations cooperating on infrastructure improvement during the Administration's first term, we recommend the following from the perspective of accelerating future infrastructure development and contributing to the improvement of Indonesia's economy and technological prowess.



Image source: MRT Jakarta website

(Policy proposal concerning infrastructure improvement)

• Utilization of Japanese technology and technology transfer to Indonesia through cooperation between Japanese and Indonesian companies

As an example of the above, STEP ODA loans¹⁶ have been applied to the MRT and Patimban Port development projects. With STEP ODA loans, although utilization of Japanese technology and participation by Japanese companies as consultants/contractors are conditions, in fact joint ventures by Japanese and Indonesian companies receive the awards and carry out the projects. Through the associated collaboration, technology and know-how held by Japanese companies are transferred to Indonesian companies. Furthermore, even with STEP ODA loans, Indonesia's local content accounts for about 70 percent of the total goods and services. Additionally, with the MRT, ODA loans covered operation and maintenance of rolling stock and systems, and support by consultants was essential for establishing safe and stable operation of the MRT.

As described above, the MRT and Patimban Port development are considered as good examples of Japanese-Indonesian cooperation, and it would be desirable to continue carrying out infrastructure development in forms that balance maximizing Indonesia's local content with utilization of Japanese technology and technology transfer to Indonesia.

• Urban transportation plan development based on future passenger demand and project implementation based on the plans

In Jakarta and other major Indonesian cities traffic congestion problems have become remarkable, greatly impairing economic efficiency and so on. Urban transportation plans aimed at easing congestion are being considered in each city, and in selection of transportation mode and development of plans, low cost, a short time construction, and ease of land acquisition tend to be prioritized in Indonesian context. However, in actual the setting of urban traffic plans based on medium- to long-term future passenger demand (including transportation mode selection) is necessary.

For the Jakarta capital region, through JICA's technical cooperation "Jabodetabek Urban Transportation Policy Integration Phase 2 (JUTPI2)", future passenger demand is estimated, and based on that an urban transportation plan with a proposed future route network based on the concept of "MRT for routes with big passenger demand and LRT and other transport modes for medium demand routes" is proposed.

For infrastructure development, coordination among various ministries, agencies, and local governments and the acquisition of permits and licenses are required, so in order to proceed with infrastructure development according to plan, the introduction and strengthening of coordination mechanisms among ministries and agencies and between central and local governments are necessary.

¹⁶ Introduced in 2002, STEP ODA are tied loans that promote Japan's "aid with a human face" through utilization of Japanese technology / know-how and technology transfer to developing countries.

- **Initiatives of vitalization of PPP cases and introduction of FDI into PPP**

Rather than advancing infrastructure development through government budgets and state owned enterprises (SOE) alone, promoting infrastructure development through PPP can accelerate infrastructure development. Foreign-capitalized companies, including Japanese companies, continue to have high interest in participating in PPP infrastructure.

Through efforts by the Indonesian government over the past five years, such as establishment of the IIGF, creation of the VGF/AP system, etc., frameworks for advancing PPP infrastructure have been set up to a certain extent. On the other hand, there is still bottleneck especially for foreign-capitalized companies to participate in PPP infrastructure that they must go through many processes over a long time before reaching bidding and contract awarding. Other bottlenecks remain, such as structuring concerning appropriate risk-sharing for public-private such as minimum revenue guarantees may be inadequate depending on the sector, and particularly long-term project financing type of loan in rupiah-denominated loans. In fact, regarding the scale of PPP projects implemented in 2010–2017, compared with Brazil (153 billion USD), India (136 billion USD), and Turkey (84 billion USD), Indonesia (34 billion USD)¹⁷ still has room to expand. In the future, for vitalization of PPP project market and introduction of FDI into PPP, continuing to work with the Japanese government to eliminate bottlenecks would be welcomed.

- **Introduction and strengthening of coordination mechanisms among ministries and agencies and between central and local governments**

For infrastructure development, coordination among various ministries, agencies, and local governments, the acquisition of permits and licenses, land acquisition, and so on are required, and in many cases the time required for those processes has resulted in project schedule delays leading to cost increases. In order to carry out infrastructure development according to plan, introduction and strengthening of coordination mechanisms among ministries and agencies and between central and local governments is necessary. Based on that, it could be done that the processes of land acquisition and acquiring permits and licenses proceed more smoothly.

(JJC action)

- **Information exchange with Indonesian government for specification of future infrastructure needs**

Japanese companies will exchange opinion with the Indonesian government regarding the elimination of bottlenecks related to infrastructure development, the necessity of further infrastructure improvement in the future and Indonesian expectations for Japanese companies participation in infrastructure development, and sharing Indonesia's initiatives.

¹⁷ McKinsey estimate based on World Bank PPP database.

- **Information transmission in collaboration with the Indonesian government for companies**

Infrastructure development is performed by various Japanese and Indonesian companies in collaboration for project construction, management, material procurement, and other related work. Because the enterprises involved will be selected by bidding, in order to provide opportunities to many businesses, we will transmit information to companies in collaboration with the Indonesian government.

4. Export promotion/expansion of domestic markets

In order to improve Indonesia's current account balance and achieve Indonesia's sustained economic growth, it will be necessary to move the trade balance into surplus. As of 2018, Japanese companies contributed 24.4 percent of exports. JJC companies intend to continue contributing to Indonesia's export promotion. On the other hand, in order to manufacture competitive products, production scale is necessary as a major factor when considering costs. In other words, the more domestic markets expand, the more export potential rises by improvement industrial competitiveness utilizing scale economy. Compared with surrounding countries, Indonesia's domestic markets are large and their future growth potential is high, so expanding domestic markets could be effective as a powerful driver of exports. Furthermore, we understand that that would lead to the realization of Indonesia's stout industrial competitiveness. Furthermore, it is no exaggeration to say that Japanese companies that have entered Indonesia have strong intention to expand investment accordingly if the business environment improves along with expansion of domestic markets. For the expansion of domestic markets, expansion of the scale of industrial activity, human resource development for steadier progress on making industrial activity more sophisticated, and infrastructure to support that are necessary. Our policy proposals for 1) improvement of business environment and promotion of FDI, 2) human resource development and technology transfer, and 3) infrastructure development are as described above. At the same time, it is necessary to work to improve a competitive trade environment in terms of smooth import/export of capital goods and production goods and the signing of strategic EPAs and FTAs.

(Policy proposal concerning export promotion/expansion of domestic markets)

- **Smooth import of necessary capital goods and production goods (improvement of customs issues)**

Currently, many capital goods and production goods are imported, and products produced using them are provided to Indonesian domestic markets and some are exported. Through business environment improvement and FDI promotion, strengthening of Indonesia's international competitiveness via further enhancement of local supporting industries in the future is expected. But for now, it is necessary to strengthen international competitiveness through smooth import of capital goods and production goods. In the World Bank's "Doing Business 2019 Regional Profile East Asia and the Pacific (EAP)"¹⁸, Indonesia lacks superiority in import/export procedures compared with its surrounding countries, and its superiority is particularly low in import procedures. Furthermore, in the case of the import of steel products, once every six

¹⁸ <https://www.doingbusiness.org/en/reports/regional-reports>

months or year, import approval must be obtained from the Ministry of Trade after obtaining a letter of recommendation from the Ministry of Industry. Moreover, because frequently the regulations stipulating that operation change, or the regulations do not change but the interpretation of the official in charge they do, regulations suddenly become stricter, it often takes longer than expected to obtain import approval. As a result, production costs increase because emergency delivery for steel products become necessary and so on, leading to lower international competitiveness. Furthermore, in the past because of such import approval delays, steel product imports backed up to the point that automobile production in Indonesia was about to be halted. Even today, such a risk exists. It is easy to imagine that if automobile production were to stop, it would have major effects on domestic markets and exports, leading to severe economic damage.

Time to import: Documentary compliance		Cost to import: Documentary compliance	
Country	(hours)	Country	(USD)
Thailand	4.0 hours	Thailand	43.0 USD
Malaysia	7.0 hours	Philippines	50.0 USD
Vietnam	76.0 hours	Malaysia	60.0 USD
Philippines	96.0 hours	Indonesia	164.4 USD
Indonesia	106.2 hours	Vietnam	183.0 USD

Source: Doing Business 2019 Regional Profile East Asia and the Pacific (EAP)

• **Improvement of a competitive trade environment through EPAs, FTAs, etc.**

Indonesia has signed free trade agreements (FTAs) and economic partnership agreements (EPAs), such as the Japan-Indonesia Economic Partnership Agreement (JIEPA), with a number of countries. It is necessary to enhance such frameworks for smoothing trade and utilize them to the maximum extent. In particular, it would be effective for Indonesia to consider the characteristics and strengths of the products it produces and strategically select partners with whom to negotiate FTAs or EPAs. Furthermore, early agreement on the East Asian Regional Comprehensive Economic Partnership (RCEP) is expected to enhance the trade environment for Indonesia.

• **Deregulation of export bonded zones (KB)**

Supplier companies that have entered Indonesia with bonded status to supply parts to manufacturers of assembled products for export have found themselves unable to secure sufficient parts for supply due to the withdrawal of manufacturers of assembled products. So that such supplier companies can stay in business in Indonesia, they have had to deal with domestic demand led manufacturers of assembled products, and as domestic demand (non-bonded) increases, they are unable to maintain bonded status. The number of companies applying for special approval under Finance Ministerial Regulation No. 131 of 2018 and Customs Director General Regulation No. 19 of 2018 for permission for domestic sales above 50 percent of the previous year’s export results is increasing. Such companies do not have the ability to own one bonded factory and one non-bonded factory. If such supplier companies become unable to obtain permission, and

have had to prioritize dealing with domestic demand led manufacturers of assembled products, they will have to perform a status change and so on. That would cause costs to rise for manufacturers of assembled products for export who have bonded status, and losing the advantages of bonded status would lead to further loss of export competitiveness. It is necessary to work on deregulation of export bonded zones, rescue such companies, and maintain the foundation for export promotion.

(JJC action)

• Efforts on export promotion/further expansion of domestic markets

JJC companies, through productivity improvement, higher local procurement rates, etc., will continue striving to create competitive products and services that contribute to export promotion and domestic market expansion with more competitive cost and higher quality. Furthermore, JJC companies will work to expand investment responsive to improvement of the business environment and expansion of domestic markets.

5. Other

Promotion of innovation is important for the accomplishment of strengthening Indonesia's international competitiveness and of sustained development.

Of the eleven unicorn companies in ASEAN, five arose in Indonesia. Addressing lack of bank accounts, traffic congestion, and other social problems, payment and settlement services for an enormous consumer demographic, various types of delivery and lifestyle services, and so on are rapidly expanding. Japanese companies are paying attention to Indonesia's startup activities and are proceeding with moves to collaborate. With the Indonesian government advancing Making Indonesia 4.0, support for startups will be extremely important. Japanese companies and startups want to contribute to Indonesian partners with innovative technologies and business plans. Improvement of conditions (deregulation of minimum capital, etc.) and strengthening of active support (tax benefits, etc.) so such companies can smoothly carry out activities would be very desirable.

To promote innovation, there is a tendency to focus on unearthing and fostering venture companies, but protecting intellectual property is also an important aspect. As you are aware, in general patent laws protect inventors' intellectual property and through disclosure at the time spread knowledge and eliminate redundant investment. Improving the environment for proper intellectual property protection has very important aspects for promoting innovation. Furthermore, nowadays innovation through digital technology is often promoted. With utilization of digital technology advancing, while various types of data flow and are used, bringing about increased innovation and better sustained development, proper action to protect data and personal information is necessary. The June 2019 G20 Osaka summit's declaration pointed out the importance to innovation of "data free flow with trust." In such ways, environmental improvement to promote innovation is expected to be done.

[Conclusion]

The Japanese and Indonesian governments shall establish a Japan-Indonesia public-private working group and carry out discussion of export promotion and human resource development. JJC, in order to implement and realize this policy proposal, shall actively participate in the public-private working group and input the perspective of Japanese companies.

JJC shall seize various opportunities to carry out ongoing communication with the Indonesian government, and, to solve the problems Indonesia faces and so the country can reach its 2045 goals, work to strengthen Indonesia's international competitiveness and for its sustained development, making the maximum contribution to the prosperity of Japanese companies and Indonesia.