

Japan's Role in Indonesia's Economic Recovery

by

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Ladies and Gentlemen:

Let me begin by extending my gratitude to the chairmen of this Symposium and to their able staff for their efforts and dedication in arranging what promises to be a very constructive and stimulating meeting. My gratitude also goes to the three institutions which have organized the Symposium: the Institute for Economic and Social Research of the University of Indonesia; the Asian Club Foundation of Japan; and the Institute for Developing Economies of Japan's External Trade Organization (JETRO). On behalf of the Government of Indonesia, I extend my thanks to all of you for sponsoring this meeting and for arranging distinguished speakers from the two countries who are attending the sessions.

From the conference title, "*Indonesia-Japan Economic Cooperation in the Twenty-first Century*," one might assume that the focus of the conference is solely on long-term developments in Japanese-Indonesian relations. However a closer look at the agenda shows that some of the sessions also will deal with the pressing immediate issue of what steps Indonesia must take to reform its economy and what role Japan can play in our recovery effort. Both issues are important because the economies of Indonesia and Japan are closely linked through a long history of trade and investment flows. As such it behooves us to consider how this relationship will evolve over the longer-term even as we consider what role Japan can play in our economic recovery.

Indonesia's economic relations with Japan have a strong foundation and are of considerable importance to both economies. From our perspective, we note that nearly one-quarter of our exports are sold in Japan's markets while nearly one-fifth of our imports come from Japan. And among Indonesia's bilateral aid donors, Japan ranks as number one. Indeed, Japan's contribution is more than that of all other bilateral donors combined. The Government of Japan recently announced that Indonesia was to receive the largest initial allocation from the Miyazawa Plan Initiative Fund, and that this is only the first allocation as more will be forthcoming.

Over the years we also have received significant foreign direct investment from Japan. Such capital flows have been accompanied by a significant transfer of technology, which has led to an upgrading of the skills and productivity of our workers. And numerous Indonesian students have taken up the educational opportunities offered by Japan. They have, I am proud to note, not only received a first-class education but subsequently have contributed much to the development of the strong bonds that characterize the relationships between our two nations. In short, Japan has made a significant contribution to Indonesia's past economic development, it is playing an important role in our efforts to resolve the current economic crisis, and, I am confident, it will continue to be an important agent for our long-term development, as we approach the new age, the new century, the new millennium.

The current economic crisis, now nearly two years old, requires actions not only by the affected countries, such as Indonesia, but the support of the regional economic powers whose own economic health is so important to us. Indonesia has embarked on a serious and long-term reform process. The various elements of our economic reform efforts are well known to all of you.

These efforts are already bearing fruit and we are committed to consolidating the progress we have made and to extending these trends in the future.

But we now know that economic reforms alone are no longer sufficient. A modern economic state requires not only sound economic management and institutions but it must also have a foundation grounded in strong commitment to openness and transparency in all aspects of economic and political life. We have recently laid the foundations for a more open political system. The forthcoming elections will further move us along the road of political reform and the development of sound political institutions. This process will be marked by rapid advances and occasional setbacks. But once the process has begun there is no turning back.

Our expectation is that the process of change will allow us not only to regain our economic momentum but will create a more vibrant society that has the strength to sustain growth over the long-term. This improvement in our economic, political, and social-cultural life will take time to yield results. It is during the interim period, when our economy is struggling to recover, that Japan, as one of our strongest economic partners, has a significant role to play.

Japan is a major market for Indonesian products. For this reason it is important to us that Japan's economy begins to grow again. We are therefore pleased to see the signs of an economic recovery in Japan. Bank restructuring is proceeding and preliminary economic data indicate that unemployment declined in December. A Japanese economic recovery will do much to strengthen the nascent recovery in Indonesia.

When we focus on the longer-term prospective of development cooperation in the 21st century, an obvious issue is the technology gap between the different countries. Japan, as a close industrial neighbor with a well developed technology base, must be an important resource for technology transfer and development. Indonesia needs technologies that allow us to efficiently and effectively use our abundant manpower and natural resources while at the same time allowing us to move up the technology ladder. Japan's economic history is replete with examples of innovative breakthroughs that introduced appropriate technologies. It is to be noted that, for me, innovation is not a mere engineering concept, but a cultural concept. Innovations in Japanese technology were born from the culture of excellence in the field of science and technology.

Cooperation on technology development would benefit both our societies, as improvement in our economy through the adoption of appropriate technology will make us a stronger economic and trading partner for Japan. This sharing of knowledge and technology transfer that has been traditionally facilitated by direct investment, technical assistance or scholarships, should be significantly intensified in the years to come as we enter the third millennium.

As the Asian economies regain their economic footing, we should begin to consider longer-term issues. The changing global financial system, recently marked by the introduction of the "euro," raises a number of questions that deserve serious consideration and analysis. I believe the global economy will evolve towards a system in which there are a few large currency areas. The dollar is obviously one of these; the "euro" may become a second, and a yen-based currency system might well be the third. At this time we are not ready to form a regional currency unit but we have begun to think about the potential for an ASEAN currency unit. It is also worthwhile to start thinking about a wider-based Asian currency unit, probably anchored on the Yen. Like the development of the "euro" it will take decades or maybe a generation to lay a solid foundation for an Asian currency unit. Such an effort should not be undertaken lightly however, nor should it be undertaken in the spirit of undermining either the role of the dollar or the potential role of the "euro." It should only be undertaken in a true spirit of seeking economic benefits. If it is clear that the benefits from developing an Asian currency unit are real and realizable, then an effort should be made to move us towards the development of such a trading unit.

In the meantime, our immediate priority is to strengthen the international financial system to allay future crisis. In various forums we have talked about the need for a new international financial architecture. It is time that the international community moved to concrete actions. We

need to design a co-ordinated response to the financial crisis that have erupted in different regions of the world. We have realised how volatile financial markets could be and how fragile many economies were, when faced to these sudden and brutal fluctuations. How to strengthen the international financial system, how to make our economies more resilient, better prepared to receive these financial flows; these should be the priority agenda of the international community.

Given the preeminent position of the G-VII economies in the sphere of international finance, it is these countries that should initiate the reform process. Let me emphasize however, that immediate efforts to manage economic crisis and the longer-term initiatives for reforming the international financial system need to bear in mind that the global economy comprises countries with very diverse backgrounds. It is therefore of some importance that process of reforming the global financial architecture gives voice to both the industrialized and the emerging economies. Japan is the sole Asian member of the G-VII. We depend on her to take the initiative and while doing so take into consideration the interests of the emerging Asian economies. All the Asian economies, and indeed all emerging economies, are bound by a common interest in developing a system that will allow access to international financial markets while ensuring increased financial stability. And it must be a system that will provide an environment conducive to dynamic growth in all parts of the world.

Finally, in conclusion let me reiterate that the meaning of Indonesia-Japan relations is not only economic but cultural. Although Indonesia and Japan have a long history, we still need to learn much about each other. A frank and open exchange of information, insights, and criticisms, is the only way a true learning process can proceed. Out of an open exchange of views will come a stronger bond between our two countries and a stronger regional economic base. I hope we can begin to lay the foundations for such an effort at this conference. I look forward to the discussions that will follow, and trust we will each leave this conference enriched with new knowledge and insights.

Thank you.