

THE MALAYSIA-INDONESIA PARTNERSHIP

Opening Address

by
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Ladies and Gentlemen,

I am honored to welcome you to Jakarta and to this important dialog between the Indonesian and Malaysian business communities. I would especially like to congratulate the organizers from the Yayasan Indonesia Forum, the Asian Strategy & Leadership Institute and The Malaysian Strategic Research Center for making this discussion possible. With our shared heritage the bilateral relationship between Malaysia and Indonesia can and should form a cornerstone for larger regional groupings. Rapid economic and industrial growth should also provide the stimulus for an even stronger relationship in the future. As part of ASEAN with a combined population of 460 million people, and economic growth averaging 7 percent annually, we are in one of the worlds most dynamic regions and on our way to being one of the key economic and political players on the global stage.

Many of us in the region have come to see recent years growth as almost a right, and even a validation of policies and broader social attributes. Nevertheless, 1995/1996 has brought something of a pause. Almost every country in the region has suffered from slowing exports and growth, accompanied by a rapidly rising current account deficit. For the region as a whole and for Indonesia I believe that we are beyond this problem and currently beginning to see the recovery of exports and growth. The causes of the general slowdown are still being debated but it is probably safe to say that we are no longer independent of trends outside the region. An era when most of us could easily increase exports, in spite of slowdowns or even recessions in the OECD countries, has ended. There is an increased correlation between the growth in our economies and the growth in the OECD countries. The way to reduce this dependence and provide increased security is to increase regional linkages.

We are aware that this requires not only increasing integration but also accepting a larger role for the private sector. Increased efficiency and productivity come from business communities and governments working together. With effective business-government cooperation, I am convinced that the stellar growth performance of the ASEAN region can continue in the future. In fact, the factors pushing overall globalization, and our commitments to AFTA should assist us in fostering increased regional trade and investment. Historical patterns of trade between developing South countries and developed North countries are changing rapidly. With lower tariffs and barriers to investment we can exploit our respective domestic advantages through increased economies of scale on a regional basis. With growing and deepening industrial structures we are seeing a geometrical expansion in the types of industry developing and there is a gratifying and rapid movement into new industries requiring higher skills and technological capabilities.

All of this reflects where we are as a region and in many ways our regional identity is a growing part of our total identity. Nevertheless, each of our countries maintains a set of unique characteristics and has articulated its own goals for the future. Let me take a moment to sketch out the Indonesian vision through the first two decades of the 21st century.

The kind of growth that we have been experiencing over the longer run and especially in the last few years must be an important element of any responsible economic strategy. However, we all agree that growth alone is not enough. We must be concerned with the plight of those who are not able to keep up with the tumultuous rate of change in our economies. Thus we are even prouder of our achievements in poverty reduction than our growth record and we share with our ASEAN neighbors the commitment to eliminate poverty.

With these axioms in mind we have set out two special goals for ourselves.

First, we are committed to continuing the policies that have generated high growth to date. With solid macroeconomic management and increased involvement in the world and regional economy, we anticipate that we can continue to average 7% growth for another 20 plus years. This economic growth combined with rapidly slowing population growth should increase real income four times by the end of the second decade of the 21st century. Second, we are committed to address the difficult issue of poverty in our society. This is even more important and we have pledged to eliminate the remaining poverty by the year 2005.

Through the second decade of the 21st century the transformation in income and the structure of production will continue the shift in population to the cities, and from farms to factories and offices. Over this period the Indonesian population will virtually reverse from approximately 65% rural to 60% urban. Manufacturing will increase from a quarter of GDP to a third and be increasingly dominated by heavy industry, machinery and increasingly skill intensive light industry sectors. Accompanying these shifts will be a major increase in the share of the population who are middle class. These people will have higher incomes and be better educated and will have middle class aspirations to consumer goods, and services.

Existing and new technologies will have transformed the look of our islands. A system of intra and inter provincial super highways will link the major cities of Sumatra, Java and Bali. Outer islands will be equipped with fast and reliable transportation by rail, sea and air further integrating the archipelago. Much sooner, we expect to have an extensive telecommunication backbone in place throughout the islands. Such a network will cut costs and reduce transportation requirements while providing reliable links to even the most remote places. In addition, we will have created an integrated energy network on the major islands from Sumatra to Java-Bali, Lombok and Kalimantan with interconnected gas pipelines and electricity power grids.

However, this transformation will not take place and our vision will not be achieved without a committed effort on all of our parts. Clearly it is the private sector that will lead the transformation of the economy. But it can not be accomplished if the government does not do its part to provide the critical enabling environment and resources. The focus of the Second Long-Term Development era is on continuing policies designed to facilitate sustainable growth while increasing the emphasis on raising the productivity of the populace. Raising productivity will be achieved by providing the social and physical infrastructure required and improving the incentives for people and businesses to invest in education, training and health services. Natural resources are an asset but the fundamental determinant of a nation's success is its people and its policies.

Indonesia is a large and diverse country and any vision developed has to acknowledge this. Thus we will continue to empower decision making at the local level while increasing the provision of resources to make this transfer of responsibility successful. We want to foster the sense of partnership between local governments and their private sectors that is critical to successful development. Programs to promote tourism developed in Bali, and Lombok, Lake Toba, or Tana Toraja are persuasive adjuncts to programs designed for all of Indonesia. Thus, 20 to 25 years from now we can imagine an Indonesia where Jakarta is a major service center, Bandung a force in world aviation and high technology, Surabaya a heavy industrial center, Medan a center of agro-industry, Bali a center of tourism, etc..

In short, our vision is the achievement of the next step in industrialization. As leaders of the private sector, you are responsible for the decisions required to carry out this vision in Indonesia and ASEAN. I cannot foresee exactly what industries will develop and where. However, with the correct incentives and a strong commitment to improving human resources we are confident that our private sector will develop as a strong and competitive force in the region and the world. By 2020 we will be a fully-established industrial country although with strong agricultural and other resource based sectors due to the wealth of our natural resources.

This is not something that we will achieve alone. Countries with markets as large as Japan, Germany and even the US are increasingly aware of just how small their domestic markets really are in certain products. This, in fact, provides the impetus to join larger groupings to improve competitiveness and take advantage of trade and technology opportunities. Thus each of us, particularly at these early stages of industrialization, need the certainty of a large ASEAN market to exploit economies of scale as well as to invest in developing the research and marketing efforts necessary for longer-run success. However, within ASEAN there may be special advantages to a closer working relationship between the Indonesian and Malaysian private sectors. Shared language, a similar culture and world view and complementary economies should provide many opportunities to work closely together in the years ahead.

In fact when we look at our trade statistics, it appears that the relationship between Indonesian and Malaysia has already begun to take off. Between 1990 and 1995 our exports to Malaysia have been growing by more than 30% annually, and imports by 20%, with both approaching the one billion-dollar level. I expect that this increasing trade between our countries is a prelude to increasing investment and joint ventures of the sort you can explore today. Given the focus of this meeting I would like to make a special pitch for thinking through and developing projects that work toward the goal of physically and economically integrating our countries. In particular the integrated transport, telecommunications and energy networks we will be building will provide many opportunities for cooperation to our mutual benefit.

Indonesia and Malaysia are countries of the future. Rapidly advancing technologies, expanding markets and the creation of AFTA, APEC and the WTO are rapidly changing the environment for businesses. This is simultaneously a great opportunity and a great challenge and I expect that you, representing our private sectors, can and will work together to seize these opportunities in a spirit of true partnership.

With that I declare this dialogue open. Thank you again.