Report on the Indonesia Mission

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GRIPS Development Forum

A policy research team visited Jakarta during June 16-20, 2014 to study Indonesia's experiences in industrial development and draw lessons for other developing countries including Ethiopia and Vietnam[1]. The mission consisted of five members: Kenichi Ohno, Izumi Ohno, Akemi Nagashima (GRIPS Development Forum, Tokyo); Le Ha Thanh (National Economics University and Vietnam Development Forum, Hanoi); and Nguyen Thi Xuan Thuy (Institute for Industrial Policy and Strategy, Vietnam Ministry of Industry and Trade, Hanoi). The mission examined (i) methodological and organizational aspects of industrial policy making in comparison with other governments in Asia and Africa; and (ii) the content of Indonesia's industrial policy.

We met government ministries and agencies, business organizations, research and training institutes, private firms, and Japanese aid and business organizations. Mission schedule, organizations and persons interviewed, and information collected are given in attachments 1-3. We would like to express our deep appreciation to all people and organizations who kindly received us and shared valuable information with us. This report summarizes the mission's findings.

1. Overview: current policy focus and issues

During the decade of 2004-2013, Indonesia recorded an annual average growth of 5.8% with only minor fluctuations despite the Lehman Shock, the Euro Crisis, and other external disturbances[2]. By 2012 its per capita income reached $3,500, placing the nation in the lower middle income category and generating a growing middle class with a strong appetite for consumer goods and services. With a population of 250 million, Indonesia has emerged as one of the largest markets in the world. Rapid motorization backed by vigorous demand for private cars is underway in the last several years, attracting car assemblers and component makers from abroad as well as causing serious traffic congestion in Jakarta. The nation aspires to become one of the world's developed countries by 2025.

[1] The purpose of JICA-commissioned missions, including this one, was to collect information on industrial policy formulation in selected countries for the policy learning of other developing countries. During Phase I of Japan-Ethiopia industrial policy dialogue 2009-2011, the GDF team visited Singapore (August-September 2010), Korea (November 2010) and Taiwan (February 2011). During Phase II, India (September 2012), Mauritius (October 2012) and Malaysia (June 2013) were visited in addition to Indonesia. Vietnam, Thailand, Mozambique, Zambia, Tanzania, Ghana and Uganda were also visited on other budgets. Views expressed in this report are those of the GDF team and do not necessarily represent the views of JICA.
[2] It is generally perceived in Indonesia that growth of at least 6% is needed for avoiding social problems, especially for creating 3 million new jobs each year for entering young workers.

Despite surging domestic income and demand, all is not going well. Indonesia is popular among foreign investors mainly because of its abundant natural resources and large and growing domestic demand, not because of its technology mastery or competitive workers. Unlike Malaysia (electronics exporter), Thailand (automobile exporter) or Vietnam (smart phone exporter), Indonesia is not viewed as a manufacturing base for conquering global markets. The manufacturing share in GDP declined from 27.7% in 2000 to 24.8% in 2010, and the share of manufactured products in total export fell sharply from 57.1% in 2000 to 37.5% in 2010 (World Bank data). From the long-term perspective, Indonesia lags behind other East Asian miracle economies. In 1960, Korea, Malaysia and Indonesia had similar per capita incomes. By now, Korea has reached high income, Malaysia is in the upper middle income range, but Indonesia remains in the lower middle income range. The Indonesian economy grew, but its speed was less than others. At the same time, disparities in personal and regional income are widening with the Gini coefficient rising greatly from 0.32 in 1990 and 0.33 in 2002 to 0.41 in 2012.

If a middle income trap is defined as a situation where growth is driven by FDI, ODA, natural resources, big projects, and other “given” advantages and not by internal value creation, Indonesia has been trapped for a long time. Despite this, fear of a middle income trap or the way to overcome it is not debated as loudly and officially as in such countries as Malaysia, China or Vietnam where coping with a middle income trap is a top national agenda[3].

Historically, Indonesia’s economic policy has vacillated between state interventionism and liberal reforms. The cycle is often synchronous with fluctuating commodity prices. The current policy mood is that of economic nationalism. The lack of strong domestic industries, as explained above, is regretted. Skepticism over further international integration is emerging because it is felt that the Indonesia-Japan Economic Partnership Agreement (IJEPA, 2008) and the ASEAN-China Free Trade Agreement (ACFTA, 2010) failed to bring expected benefits to Indonesia (perhaps expectations were too high). Dissatisfaction with current FDI-driven industrialization is mounting. Laws and regulations are becoming more restrictive to foreign investors. The pride of a large nation is on the rise. This mood is reflected in the presidential candidate debate between Joko Widodo and Prabowo Subianto which was televised during our stay. Both candidates are nationalists, and the difference (which may be substantial) is mainly in their degrees and approaches.

Part—possibly a large part—of the reason why Indonesian industries are not as dynamic as hoped is weak policy capability. Our mission had discussions with key economic ministries and agencies, private firms, summit business organizations, Japanese aid and business organizations, and a think tank. When compared with East Asia’s other industrializing economies, Indonesia’s industrial policy has some bright spots such as well-established

[3] During our mission, the slides of the Investment Coordination Board (BKPM) mentioned the middle income trap, but no other ministries and agencies discussed it. The situation of the middle income trap problem being raised only sporadically and only by some ministries is akin to the situation in Thailand.

processes for stakeholder consultation and inter-ministerial coordination for some policy making, existence of certain proactive government leaders with strong business background, and competency of some (not all) government ministries, agencies and individual officials. Nevertheless, in operational and implementation aspects, Indonesia's policy capability is found to be weak and more primitive than most other middle income countries in the region such as Malaysia and Thailand, and far inferior to "Tigers" such as Singapore, Taiwan and Korea. Examples of policy issues are given below.

- Both local and foreign businesses complain bitterly that policy is unpredictable, ambiguous, arbitrary and uncoordinated, and that too many Ministerial Regulations are issued without stakeholder consultation or any period for preparation[4].
- The Horticulture Law (2010), the Mining Law (2012), and the Trade Law (2014) have been revised to pursue national interest. The new Horticulture Law raises hurdles for foreign investors. The new Mining Law requires processing minerals domestically instead of exporting them in raw form (including aluminum and nickel). The new Trade Law is drafted so vaguely that it allows wide interpretation and confounds investors.
- In 2013 Jakarta's minimum wage rose as much as 43.9% due to aggressive and violent labor unions. With unskilled labor wage at $234 per month and rising (JETRO survey, December 2013), Indonesia is quickly losing competitiveness in labor-intensive processes, which is too early for a labor-surplus country. Political wage demands must be replaced by a predictable wage mechanism based on labor productivity performance (section 6).
- Investment incentives exist only on paper. Only large FDI is eligible and less than ten firms have been granted tax holiday so far (only two since 2012)[5]. Tax cuts must be negotiated individually with relevant line ministries which use their limited budget to pay taxes for exempted firms. The Ministry of Finance (MOF) rejects most incentive proposals for fear of revenue loss. The recognition that manufacturing SMEs and supporting industries add a competitive edge to the nation does not seem to exist.
- Industrial activities are concentrated in the Jakarta Metropolitan Area putting severe strain on transport infrastructure. Although plans have existed for a long time, construction of a new port, airport expansion and needed additional access highways have not been started and construction of a metro network is just beginning (section 4). In contrast, Bangkok, New Delhi, Hanoi and HCM City have built such infrastructure gradually and in steps to partly alleviate (if not eliminate) congestion.

[4] Indonesian policy documents are classified into Laws, Government Regulations, Presidential Regulations, and Ministerial Regulations in descending order of difficulty of issuing. Laws must be passed by the Parliament which usually takes a long time. In contrast, a large number of Ministerial Regulations are issued but they are often criticized for the lack of stakeholder consultation or inter-ministerial coordination.

[5] To enjoy tax holiday, an investor must belong to one of the five sectors (metal, petrochemical, machinery, recyclable energy, and telecom) and invest at least IDR1 trillion (about $83 million). To receive tax allowances, many conditions, such as employing over 500 workers within five years, providing at least IDR10 billion (about $83,000) for socio-economic infrastructure, and input localization of 70% after the fourth year, are required. A BKPM leader told Japanese businesses, who requested more substantive investment incentives, that a large population was Indonesia's investment incentive.

- SME policy is fragmented across ministries and also between central and local authorities. There is no nationally unified definition of SMEs. Integrated and effective SME promotion as seen in Japan, Taiwan and Malaysia does not yet exist in Indonesia (section 7).
- Decentralization has deepened since the beginning of 2000s. This has contributed to political stability and democracy in this large and diverse country. But it also has downsides including the lost central grip on national issues such as TVET and SME promotion, shortage of local capacity, and varied performance depending on the willingness and capability of local governments.
- Fiscal balance is deteriorating. A fourth of budget expenditure goes to fuel and electricity subsidies. An ambitious social security system is about to be launched in 2015, but funding has not been identified.

To strengthen industrial capacity, Indonesia is turning to more control and nationalism rather than enhancing such standard measures as labor training and matching with industrial needs, technical and financial assistance to enterprises, logistic superiority, linkage between FDI and local suppliers, and establishment of national standards, certification and testing systems. By the East Asian standard, industrial policy in Indonesia has not reached the knowledge frontier of the 21st century.

2. National development planning

Long- and medium-term development planning as well as annual development planning at both national and regional levels are regulated by the Law on the National Development Planning System (Law No.25, 2004). Nation-level documents consist of the National Long-term Development Plan (RPJPN, for 20 years), the National Medium-term Development Plan (RPJMN, for five years), and annual development plans. Because presidential and planning cycles are synchronized, every five years an incoming government prepares RPJMN to set new priorities within the framework of the longer-term RPJPN. RPJMN must be enacted by a Presidential Regulation no later than three months after the inauguration of the President which takes place in October. Table 1 summarizes Indonesia's development plans at national and regional levels.

The National Development Planning Agency (BAPPENAS) and Regional Development Planning Agencies (BAPPEDA) are responsible for development planning. During the Suharto years (1968-98), BAPPENAS was a powerful super-agency with combined authority over development planning, development budget, and foreign aid mobilization. At times, the BAPPENAS chairman doubled as the Coordinating Minister for Economic Affairs. However, sweeping decentralization in 2001 (Regional Autonomy Laws No.22 and No.25) and the transfer of development budget to the Ministry of Finance in 2003 (Law No.17), which made MOF responsible for the formulation and execution of both development and recurrent budget, significantly reduced the role of BAPPENAS. Subsequently, the Law on the National Development Planning System (Law No.25, 2004), mentioned above, clarified the development planning system in the democratic and decentralized era as well as the revised functions of BAPPENAS and BAPPEDA. According to this law, BAPPENAS is responsible for coordinating and drafting National RPJPN, National RPJMN and annual development plans while BAPPEDA is responsible for equivalent functions at the regional level.

Table 1. Types of National Development Plans

National	Regional	Period
National Long-term Development Plan (RPJPN): enacted by Law	Regional Long-term Development Plan (Regional RPJP): enacted by Regional Regulation	20 years
National Medium-term Development Plan (RPJMN): enacted by Presidential Regulation	Regional Medium-term Development Plan (Regional RPJM): enacted by Regulations by issued by respective Regional Heads	5 years
Strategic Plan of Ministries/Agencies (Renstra-KL): enacted by regulations issued by heads of Ministries/Agencies	Strategic Plan of Regional Government Work Unit (Renstra-SKPD): enacted by regulations of heads of respective Work Unit	5 years
National Annual Development Plan (RKP): enacted by Presidential Regulation	Regional Annual Development Plan (RKPD): enacted by Regulation of Regional Head	1 year
Annual Development Plan of relevant Ministry/Agency (Renja-KL)	Annual Development Plan of Regional Government Work Unit (Renja-SKPD)	1 year

Source: Law on National Development Planning System (Law No.25, 2004)

The current RPJPN 2005-2025 (Law No.17, 2007) and RPJMN 2010-2014 (Presidential Regulation No.7, 2009) were prepared by the government of President Yudhoyono. The vision of the 20-year RPJPN is to “establish a country that is developed and self-reliant, just and democratic, and peaceful and united.” The mission of the 5-year RPJMN 2010-2014 is to realize “prosperous, democratic, and just Indonesia in the globalized world.” The targets of RPJMN include accelerating economic growth to 7% and reducing open unemployment to 5-6% and the poverty rate to 8-10% by 2014. It specifies eleven national priorities[6]. While the intention of trying to attain inclusive and sustainable growth is clear in RPJMN 2010-2014, it does not specify the driver of growth or concrete steps and measures for enhancing economic competitiveness and industrialization. The current RPJMN only generally discusses the need to promote SMEs and cooperatives, maintain macroeconomic stability, pay more attention to science and technology, productivity, creativity and innovation, and so on.

Presently, BAPPENAS is drafting RPJMN 2015-2019, which will be the third medium-term plan under RPJPN 2005-2025. Preparation of RPJMN takes about two years including informal preparatory processes. To draft the industry chapter of the next RPJMN, the

[6] The priorities are (i) reforming the bureaucracy and administration; (ii) education; (iii) health; (iv) reducing poverty; (v) food security; (vi) infrastructure; (vii) investment in the business sector; (viii) energy; (ix) environment and natural disaster; (x) left-behind, frontline, most outer, and post-conflict regions; and (xi) culture, creativity, and technological innovation. The current RPJMN also discusses regional development directions and policies.

Directorate of Industry, Science Technology, Tourism and Creative Economics of BAPPENAS started background studies and data analysis in 2012 involving academia and experts. The basic idea for new industrial chapter was to add value before exporting, especially for agriculture and mining, which was proposed simultaneously by BAPPENAS and the Ministry of Industry (MOI)[7]. During 2013, BAPPENAS and MOI continued to share and adjust each other's views by organizing seminars and inviting each other. BAPPENAS has an ample budget for hosting such seminars and meetings.

In February 2014, BAPPENAS officially presented the concept paper for the industrial chapter of the next RPJMN to MOI. After incorporating about 90% of received comments, the revised concept paper was presented in April 2014 to the leaders and directorates of MOI as well as business representatives such as the Indonesian Chambers of Commerce and Industry (KADIN), the Employer's Association of Indonesia (APINDO), and sectoral associations. BAPPENAS will officially announce its perspective for the next RPJMN, of which the industry chapter is a part, at end June 2014 to receive public reaction. On October 15, 2014 when a new President will assume office, the draft RPJMN 2015-2019 will be presented to the President's team for comments and inputs. The plan must be finalized by January 15, 2015, after which BAPPENAS will begin work on the annual development plan and budget. Each ministry will also be required to draft its strategic plan for the next five years.

Chapters of RPJMN 2015-2019 will consist of priorities, past review, macroeconomic scenarios and targets, nine key sectors (agriculture (5), mining (2), industry (1) and services (1)), and cross-sectoral issues. It is expected to be Indonesia's first development plan that highlights industry as a prime mover of the economy. Consistent with the New Law on Industrial Policy (section 5), the industry chapter will recognize the need to deepen industrial structure, develop supporting industries, and increase value added to natural resources before exporting.

3. The Coordinating Ministry of Economic Affairs and MP3EI

Indonesia has a unique mechanism for inter-ministerial policy coordination. Above line ministries, there are three coordinating ministries headed by senior ministers dealing with (i) political, legal and security issues; (ii) economic affairs; and (iii) people's welfare. Among them, the Coordinating Ministry for Economic Affairs (EKON)[8] is charged with matters related to policy implementation among 17 economic ministries (there are 34 ministries in all). The role of the coordinating ministries is similar to that of high-level committees or

[7] In 2012, MOI Minister Hidayat issued a pamphlet entitled "Acceleration of Industrialization in Indonesia" to make this point.

[8] The Coordination Ministry for Economic Affairs, with the current Indonesian acronym of EKON, was established in 1966 and went through many name changes. Until 2000, it was routinely called EKUIN whose functions included finance. At times, the EKUIN Minister assumed the chairmanship of BAPPENAS (as in the case of Dr. Widjojo Nitisastro during 1973-83).

councils headed by Deputy Prime Ministers in other countries, but Indonesia does policy coordination by a permanent mechanism, i.e., ministries that stand above line ministries and have regular staff.

The Master Plan for Economic Development for Acceleration and Expansion of Indonesia's Economic Development 2011-2025 (MP3EI), an ad hoc development plan, was prepared during the second term of President Yudhoyono and announced by a Presidential Regulation in May 2011. According to EKON, its former Minister Hatta Rajasa, who felt the need for an additional plan that listed concrete priority projects, played a central role in producing its initial concept. Preparation for MP3EI began in August 2010 at EKON which subsequently conducted stakeholder consultations and finalization in collaboration with BAPPENAS, related ministries, and the business community[9].

Embracing the vision of "self-sufficient, advanced, just, and prosperous Indonesia," MP3EI aims at high, balanced, fair and sustainable economic growth. It sets a growth target of 7-9% per annum to achieve Indonesia's transformation into one of the top ten advanced economies in the world by 2025, with expected per capita income of $14,250-15,500. MP3EI includes eight main programs consisting of 22 main economic activities. It has three strategies: (i) developing potentials of six economic corridors (Java, Sumatra, Kalimantan, Sulawesi, Maluku-Papua and Bali-Nusa Tenggara); (ii) strengthening domestic and international connectivity; and (iii) promoting human resource capacity and science and technology. MP3EI also provides guidelines for the development of infrastructure needs and recommendations for revision of regulations.

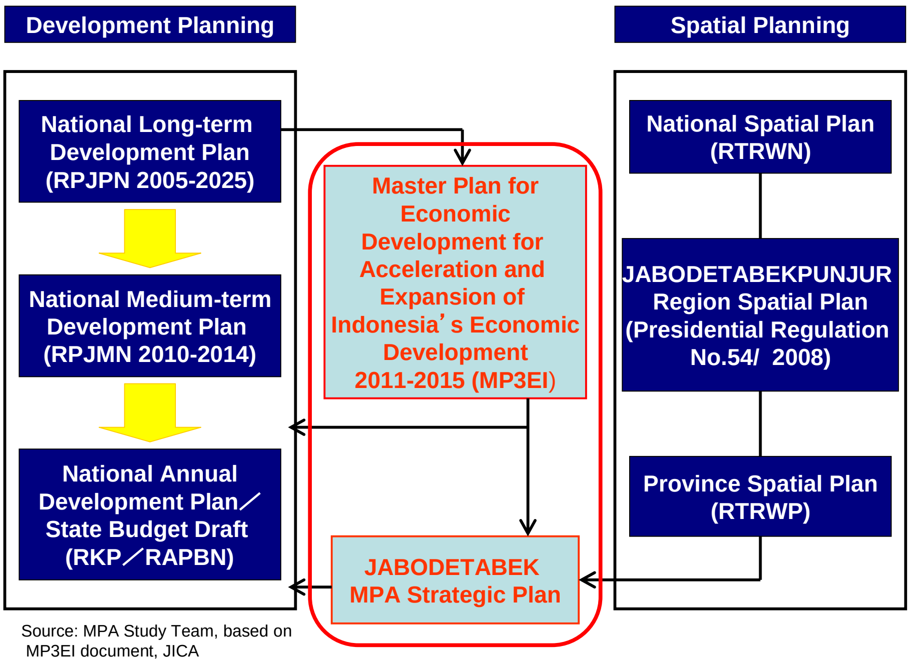
As a plan document, MP3EI has two notable characters. First, it is an effort to harmonize RPJMN and the National Spatial Plan (Spatial Planning Law No.24, 1992). Second, its many large projects, amounting to IDR4,000 trillion, are to be financed by all stakeholders including central and local governments, state-owned enterprises, and the private sector in sharp contrast to RPJMN which covers publicly-financed projects only. While MP3EI states that it does not replace any of the existing national or regional development plans, questions are occasionally raised about the consistency between the two.

Implementation of MP3EI is the task of the Committee on Economic Development Acceleration and Expansion of Indonesia 2011-2025 (KP3EI), established in May 2011 for this purpose and headed by the President. The duties of KP3EI are coordination of planning and implementation, monitoring and evaluation, and removing obstacles in implementing MP3EI. To handle daily matters, KP3EI has two operational units: (i) Team KP3EI that contains nine task teams—for six economic corridors and three cross-cutting issues of regulatory reforms, connectivity, and human resources and science and technology; and (ii) Secretariat KP3EI headed by a Deputy Minister of EKON charged with infrastructure and

[9] Meanwhile, MP3EI itself states that it originated from the directive order of President Yudhoyono given to the Limited Cabinet Retreat in December 2010 which stressed the need for economic transformation.

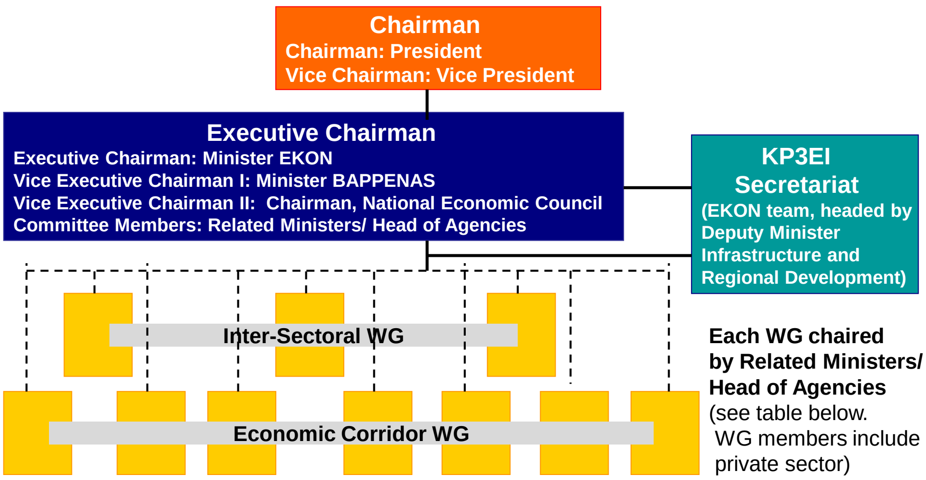
regional development coordination and supported by six divisions of EKON.

Figure 1. Relationship among Development Planning, Spatial Planning, and MP3EI



Source: MPA Study Team, based on MP3EI document, JICA

Figure 2. Implementation Coordination Mechanism for MP3EI



Inter-Sectoral WG (chairman)		Economic Corridor WG (chairman)	
Regulation	Secretary EKON	Sumatra	Minister Forestry
Connectivity	Vice Minister BAPPENAS	Java	Minister Public Works
HR & Sci. Tech	Vice Minister Education & Culture	Kalimantan	Minister Agriculture
		Sulawesi	Minister Marine Affairs & Fisheries
		Bali-NT	Minister Culture & Tourism
Source: Coordinating Ministry for Economic Affairs (EKON)		Papua & Maluku	Minister Transportation

Note: Alternate chairmen are assigned for Economic Corridor WG as follows: Sumatra (Minister Energy and Mineral Resources (Sumatra); Minister Industry (Java), Minister Public Housing (Kalimantan), Minister Cooperatives and SMEs (Kalimantan); Minister Trade (Bali-NT), Minister Development of Disadvantaged Regions (Papua & Maluku).

MP3EI is subject to periodic review. The government completed the first review of MP3EI in May 2014. The main revision was expansion of the scope of projects from large-scale infrastructure projects in the original MP3EI to projects in all sectors including environmental ones.

4. Metropolitan Priority Area

The Metropolitan Priority Area (MPA) initiative, an ambitious infrastructure plan for Jakarta and its surrounding areas, is a key component of the Java Economic Corridor which is one of the six economic corridors in MP3EI. The Japanese government has been supporting its formulation and implementation.

The objective of MPA is to make JABODETABEK, a combined acronym for Jakarta, Bogor, Depok, Tangerang and Bekasi, more attractive for industrial investment by accelerating infrastructure development and creating a business climate that can compete effectively within ASEAN. Due to the economic boom and motorization in the last several years, the area is suffering from severe traffic congestion, and the low quality and lack of infrastructure has emerged as a major barrier to economic activities. To improve both the hard and soft aspects of business environment, the governments of Indonesia and Japan signed a memorandum of cooperation in December 2010 and conducted the MPA Master Plan Study under the Steering Committee and Technical Committee composed of the two governments and relevant organizations.

The Master Plan Study (i) presented a vision of JABODETABEK in the year 2020 and forecasted economic and social conditions surrounding Indonesia in 2030; (ii) formulated an overall plan for infrastructure development in the JABODETABEK Area by the year 2020 specifying 45 priority projects; and (iii) selected 18 fast track projects (two more were added later) to be undertaken by the end of 2013 from the priority project list. The Master Plan Study estimated the total required amount by 2020 to be 3.4 trillion yen (about $34 billion, including the fast track projects), which was to be financed by both private and public means. Roughly 1 trillion yen (about $10 billion) was expected to be forthcoming externally, including Japanese ODA. Among 20 fast track projects, five were selected as flagship projects with highest priority[10].

The JABODETABEK MPA Strategic Plan was also drafted jointly by the two governments. From March 2011 to October 2012, three Steering Committee meetings, co-chaired by the EKON Minister on the Indonesian side and the Minister of Economy, Trade and Industry or

[10] The flagship projects are (i) Cilamaya New Port Development, (ii) Jakarta Mass Rapid Transit; (iii) terminal expansion at Sukarno-Hatta International Airport; (iv) sewage system development; and (v) the New Academic Research Center. See The Master Plan for Establishing Metropolitan Priority Area for Investment and Industry in JABODETABEK Area, Final Report by the Coordinating Ministry for Economic Affairs and JICA, November 2012. This information is based on JICA Press Release dated October 9, 2012: http://www.jica.go.jp/english/news/press/2012/121009.html

the Minister of Foreign Affairs on the Japanese side, were held. Six Technical Committee meetings, co-chaired by the Deputy Minster for Infrastructure and Regional Development Cooperation of EKON and the Minister of the Japanese Embassy to Indonesia, were also organized. One wing of the Technical Committee monitors the progress of infrastructure projects while the other is a bilateral forum for improving investment climate (called the MPA High Level Consultation for Investment Promotion). The Jakarta Japan Club (JJC), having the function of a chamber of commerce and industry for Japanese firms operating in the Greater Jakarta area, provides substantive comments and requests to the latter wing of the Technical Committee. Major issues raised at present are related to labor, taxation and customs as well as general unpredictability of laws and regulations.

MPA has become JICA's main economic cooperation in Indonesia. JICA supports some of the fast track projects such as the North-South Line of the Jakarta Mass Rapid Transit System, the Java-Sumatra Inter-connection Transmission Line, and improvement of the Pluit Wastewater Facilities for flood control. Assistance to project formulation is also underway for a new port as well as road, railway and wastewater treatment improvements. Some of the projects may be carried out through public-private partnership. However, implementation of MPA is behind the schedule, which is not entirely surprising for such a large and complex set of projects requiring a high capability for political, technical and administrative coordination. Land acquisition for infrastructure projects is also slow. Greater efforts are needed by EKON and the ministries concerned to accelerate implementation.

5. The New Industrial Policy

In January 2014, the new Law on Industrial Policy replaced the old law of 1984 to take into account the national, regional and global changes that took place in the past three decades. It also updated the National Industrial Policy (Presidential Regulation No.28, 2008). Formulation of the new Law is led by MOI Minister Mohamad S. Hidayat who comes from a private sector background (previously he was the chairman of KADIN).

Main changes between the 2008 National Industrial Policy and the 2014 Industrial Policy Law include: (i) expanded scope of priority sectors; (ii) prioritizing the use of natural resources for domestic industries over raw-form exports; (iii) more emphasis on human resource and capacity development including the introduction of national work competency standards and certification; and (iv) a more active role of the government in developing industrial estates and related infrastructure, particularly in outer islands[11].

Meanwhile, the nationalistic tone of the new Law worries some businesses. For example, it

[11] About 90% of Indonesia's industrial estates are developed and operated by the private sector. The government has so far played a very limited role in supplying industrial land. Since 2009, all manufacturing FDI has been obliged to locate in an industrial estate (there are some conditional exceptions). According to the MOI Secretary General, the purpose of this requirement is two-fold: provision of supporting services (one-stop window, power supply, etc.) for enhancing competitiveness, and environmental protection.

allows foreign workers to work only for a limited period and requires them to meet knowledge and skill requirements set by the national work competency standards. It obliges investors in turnkey projects to perform technology transfer with little regard to whether this is commercially and technically viable. The law paves the way for the government to set quotas or even a ban on the export of minerals and commodities to reserve their use for domestic activities. The law permits price control and the state control of strategic industries on the grounds of safety and other national interests. Also, preferential treatment is given to domestic companies for government tenders.

The new Law on Industrial Policy mandates drafting of the National Industrial Development Master Plan (RIPIN) that articulates the vision, mission, strategy and priority programs for industrial development in the next two decades (2015-2035). MOI is currently working on it. The draft Master Plan will be submitted to the MOI Minister in July 2014, after which related ministries and organizations will be consulted for comment. MOI plans to finalize it by October 2014 when a new government will be inaugurated.

The draft Master Plan is expected to have the following policy architecture:

- Six core industries—food; pharmaceutical and cosmetics; textile and footwear; transportation equipment; electronics and ICT; and energy
- Three supporting industries—capital goods; component industry; and machinery accessory and support materials
- Three upstream industries: agro-based; mining; and gas and coal
- Six basic requirements—natural resources, human resource; technology, innovation and creativity; infrastructure; policy and regulation; and finance

According to MOI, one of the difficulties in designing industrial policy is very limited room for fiscal incentives for industrial promotion. The Finance Law is highly restrictive, and tax allowance and tax holidays are very difficult to obtain. This is primarily because MOF places the highest priority on maintaining fiscal disciplines and, as a result, is extremely cautious about any proposal for new incentives.

While all cross-ministerial policies must in principle be coordinated by EKON, the drafting of the Industrial Master Plan is proceeding at the initiative of MOI. The Secretary General of MOI is responsible for overall supervision and coordination. The Task Team for drafting has been organized by MOI chaired by the Director General of Industrial Regional Development. It comprises of 25 members from MOI, universities, research centers, consultancy, and businesses. During the last one year, the Task Team worked intensively, meeting at least every other week. A seminar with KADIN was also organized. BAPPENAS was also informally but closely involved, as explained above. As with national development planning, the Industrial Master Plan is being prepared with extensive institutionalized discussions among government, businesses, and experts—but without a strong involvement of EKON.

In sum, Indonesia has three sets of documents defining industrial policy—RPJPN and RPJMN (routine plan documents drafted by BAPPENAS), MP3EI of which MPA is an important part (with attention to spatial planning and investment climate, led by EKON), and the Industrial Law and the Industrial Master Plan (specifying various industrial policy components, formulated by MOI). In theory, these policies should be mutually consistent and reinforcing. However, there is also a risk of too many cooks spoiling the broth.

When more than one organization participate in the same policy, success requires a shared direction and an effective coordination mechanism. The fact that all ministries support a nationalistic industrial vision is good—at least from the viewpoint of avoiding fights over policy purpose. Indonesia also has EKON, a designated coordinator of line ministry policies, which should be able to provide the needed high-level coordination.

However, the mission detected a strong sense of autonomy and rivalry among certain economic ministries and even among directorates of the same ministry. Even when a policy direction is broadly agreed, competition for securing priority and budget can be fierce. Information seems to flow freely among friendly ministries via well-established consultation mechanisms but not between contending or remote ones. EKON, with its own plans and strategies, is an active player as well as a coordinator in this industrial policy competition. MOF tries to shoot down any policy proposal requiring new funding, which is understandable given its mandate. While inter-bureaucratic contention and a non-generous MOF are hardly unique to Indonesia, their degrees are such that they often significantly delay or even hold up policy implementation. Advanced decentralization, whatever its many merits may be, also makes central economic policy making a challenge. By contrast, in countries equipped with a policy supervising mechanism chaired personally by a powerful president or prime minister, industrial policy is actually executed even with some delay.

6. FDI policy

Foreign investment in Indonesia is governed by the Investment Law (Law No.25, 2007), the Investment List (Presidential Regulation No. 111, 2007; No. 36, 2010; and No.39, 2014) and many other laws covering specific sectors or products. Investment authorities are distributed among the Indonesian Investment Coordinating Board (BKPM), sectoral ministries, and local governments. BKPM is the central investment agency as well as a one-stop shop for investors covering all sectors except oil, gas, and financial sectors. Investment applications can be submitted to its Jakarta head office or regional offices. Under decentralization, local governments are responsible for monitoring and supporting investment projects within their jurisdictions except for certain projects which remain under central authority.

Daily operation of BKPM, as the initial contact point for foreign investors, is efficient and responsive in comparison with other parts of the Indonesian government. Despite this, Indonesia’s investment incentives and administration are saddled with many shortcomings as already discussed. FDI liberalization began to accelerate in the aftermath of the Asian financial crisis of 1997-98, a process which continues to date. However, investment climate has not yet reached the level of predictability and business friendliness of other industrial economies in the region such as Malaysia and Thailand.

Although far from being an investors' paradise, Indonesia is absorbing an increasing amount of FDI year after year. FDI realization rose from $10.8 billion in 2009 to $28.6 billion in 2013 accounting for 68% of total investment in the latter year. Manufacturing FDI, especially in the automotive sector, is most dynamic. The share of secondary sectors in total FDI realization increased sharply from 35% in 2009 to 55% in 2013. To reflect this sector shift, Japan became the top investor in 2013 replacing Singapore which was the largest source country in the past (BKPM data excluding oil, gas, and financial sectors). Similarly, from the viewpoint of Japanese firms, Indonesia's ranking as a desirable investment destination in the future (next three years) jumped from No.8 in 2007-2009 to the top position in 2012.

Indonesia's attractiveness mainly comes from large and growing domestic demand and rich natural resources rather than knowledge, skills or technology. Most foreign manufacturers target consumers and users in Indonesia rather than build a global supply base. This is FDI-led industrialization driven by quantity rather than competitiveness. This was the major reason for policy makers to adopt a series of inward-looking industrial measures. However, export competitiveness cannot be forged unless favorable business environment and effective policy support are in place. Indonesia has a long way to go before such environment and measures are realized.

One of the shortcomings is meager incentives. Standard privileges such as tax allowance, tax holiday, and import duty exemption are available only under strict conditions which are difficult to meet for most foreign firms. One of the highest hurdles is the minimum size of investment such as IDR0.5-1.0 trillion and/or 100-300 employees depending on incentive types. Other conditions include sectors[12], bank deposit requirement, R&D requirement, and contribution to infrastructure. New regulations are frequently issued and conditions are often unclear, with the result that eligible firms must negotiate with ministries in charge. This shuts out most FDI firms except the largest. There are also no incentives for manufacturing SMEs, supporting industries, technology transfer, or worker and engineer training. Nevertheless, additional tax deduction to labor-intensive industries and firms exporting at least 30% of output were enacted in 2013 and tax incentive for reinvestment was introduced in 2014. This may be because MOF Minister Basri, who previously chaired BKPM, is more understanding to the joint requests of MOI and BKPM.

[12] For instance, tax holiday is available to five sectors only (basic metal, oil refinery and petrochemical, machinery, renewable energy, and communication devices), which however are different from BKPM's seven priority sectors (export-oriented, capital goods and raw materials, consumer goods, downstream industries, sectors with rising domestic consumption, infrastructure, and tourism and creative industries).

An interesting case is the low-cost green car (LCGC) policy whose details were announced in July 2013 (MOI Ministerial Regulation No.33). It exempts luxury tax on cars produced in Indonesia which satisfy certain conditions regarding engine capacity, fuel efficiency, and selling price. Localization of 80-85% is also required but not stated in the official document[13].

In April 2014, a new negative list for foreign investors (Presidential Regulation No.39) replaced the previous one in 2010, easing conditions for some sectors but tightening in others. 100% foreign ownership is now permitted for manufacturing (there are exceptions), but for wholesale distribution and warehousing maximum foreign ownership was reduced from 100% to 30%. Restrictions not stated in the negative list are also reported.

Wage pressure and labor disputes are another serious problem that may damage Indonesia's international competitiveness. In our interviews, business leaders and industrial officials were generally frustrated with aggressive wage demands unrelated to productivity performance. It is interesting that the Ministry of Manpower and Transmigration, BKPM, APINDO and KADIN are proposing a predictable wage mechanism in which government, employers and unions should agree on wage levels for three to five years into the future based on productivity measurement with inflation adjustment[14].

Regarding the operational modality of BKPM, the two-step investment licensing procedure (initial approval followed by the principle license) was abolished in 2013 and the two steps were unified. BKPM initially thought that investors needed time to think before implementing the project, and allowed six months between the two steps. But it was learned that most investors, such as from Japan, Korea and Singapore, did not need such time as they had already decided to invest by the time they approached BKPM. For greater convenience, BKPM has introduced an online tracking system which allows an investor to check the position and status of his or her application. Additionally, online application for the principle license will be operative in 2014.

BKPM's Investment Promotion consists of promotion development, sectoral promotion, regional promotion, and exhibition and promotion. These are supported by other functions of BKPM. After getting a principle license, BKPM assists investors with obtaining a business license, owner change, capacity increase of more than 30%, and import duty exemption on equipment and materials (during the factory preparation period only). Investment implementation is monitored for some but not all projects. For this purpose, BKPM relies mainly on reports from local governments. One peculiar aspect of BKPM's data reporting is

[13] LCGC policy, in which five Japanese car makers participate, is one of the reasons for FDI acceleration in automotive assembly and part production in recent years. However, local content requirement and export subsidies violate WTO rules. In certain instances, Indonesia seems to impose incentive requirements in a non-documented way.

[14] The idea of tripartite cooperation for productivity-wage nexus is comparable to Singapore's Charter for Industrial Progress in 1965. A similar advice was also given by the GRIPS Development Forum in a letter addressed to Ethiopian Prime Minister Hailemariam in April 2014.

that the number of approved projects is no longer made public, with only “investment realization” (total value and sectoral and source country distribution) announced. The mission could not understand the reason for this practice[15].

7. Promotion of SMEs and industrial human resource

Indonesia does not have a unified definition of SMEs as definitions differ across ministries, agencies, and financial institutions (Table 2). The Ministry of Cooperative and SMEs, which provides cross-sectoral support in policy formulation, financing, training and marketing, uses the asset-based definition given in Law No.28 of 2008. The National Agency for Statistics (BPS), which conducts SME surveys, classifies enterprises according to the number of employees. MOI also adopts the BPS definition. Sector-wise SME support is managed by each responsible line ministry including MOI.

Table 2: Definition of SMEs in Indonesia

	Definition by National Agency for Statistics (BPS)	Definition by Law on Micro, Small, and Medium Enterprises (Law No. 20, 2008), satisfying at least one of the two conditions	
□	Number of Employees	Net Assets (IDR)	Annual Sales (IDR)
Micro Enterprise	Below 5	50 million or below	300 million or below
Small Enterprise	5–19	Over 50 million up to 500 million	Over 300 million up to 2,500 million
Medium Enterprise	20–99	Over 500 million up to 10,000 million	Over 2,500 million up to 50,000 million
Large Enterprise	100 and above	Over 10,000 million	Over 50,000 million

Source: Based on the relevant laws and regulations in Indonesia.
Note: According to Law No.20, 2008, the value of net assets do not include land and building.

While many definitions make comparison difficult, as of 2014 there are 57.9 million SMEs nationwide (MoC&SME data), of which 4.3 million belong to industry (called SMIs, MOI data). Most, but not all, SMEs are organized as “cooperatives” which offer various services to its members. The total number of cooperatives was 203,701 in 2013 (MoC&SME data). Separately, “clusters” are local concentration of SMEs that produce similar products. Cooperatives and clusters may overlap but they are not necessarily the same. After decentralization, cooperatives and clusters have been managed by local authorities. This makes it difficult for central ministries to uniformly implement SME policy across the nation or work effectively with local governments. Moreover, scattered authority and the lack of strong coordination even at the central level additionally weaken SME promotion.

[15] Most countries regularly (often monthly) report the number and value of investment approvals as well as implemented value. With this information it is easy to compute the average investment size and detect, for example, the recent trend that the number of manufacturing SMEs is rising in Japanese FDI inflow, which is observable in Malaysia, Thailand and Vietnam. It is suspected that the same is true in Indonesia.

Historically, the Indonesian government often stressed the importance of SMEs and has tried many types of support measures since the late 1960s including marketing, finance, supporting industries, Foster Father Scheme, SME clusters, technical service extension units, Business Development Services, technology transfer, and innovation. But positive impacts on the quality and dynamism of SMEs remain elusive. Compared with neighboring countries such as Thailand and Vietnam, Indonesian SMIs are less likely to be formally registered or linked with global players and markets.

Like India, an important purpose of Indonesia's FDI policy has been protection of local SMEs. Certain sectors are closed to foreign firms and others require partnership with locals. However, such restrictions may backfire as they discourage incoming FDI and encourage SMEs to stay small and weak to receive privileges.

At present, functions of the Ministry of Cooperatives and SMEs are (i) policy making; (ii) training in cooperation with local governments; (iii) financial support through loan guarantee (KUR), grants for cooperatives and start-up firms, and a revolving fund for subsidized loans (in cooperation with MOF); (iv) marketing, which includes the SME Tower exhibiting provincial products; and (v) incubation.

The SMI Directorate of MOI has four Priority Programs: (i) One Village One Product (OVOP) learned mainly from Taiwan and Thailand; (ii) SMI clusters; (iii) creative industries; and (iv) "entrepreneurship." The last is a scholarship program for selected young students to acquire technical skills in chosen fields at one of the 17 technical institutions for three years, then dispatching them to SME Centers across the nation to assist businesses for at least two years. About 1,000 students have been recruited in this way during the last two years. Meanwhile, the Directorate's Supporting Programs include (i) replacement of old equipment with 35% of cost borne by the central government and 45% by the local government; and (ii) SMI facilitation (IPR and packaging clinics, halal products, etc.) The Directorate has budget to help local governments with capacity building programs as well as financial transfers. Separately, MOI operates eight Training Centers for training local government officials, seven technical colleges, 11 technical high schools, 11 technical institutes, and 11 industrial standards centers. However, limited budget and outdated equipment are common problems.

Shindanshi is a system of officially recognized SME consultants initiated in post-WW2 Japan. From 2005 to 2008 JICA assisted Indonesia to train 450 (mostly) local government officials as shindanshi and also created a national certification system. The Industrial Education and Training Center under MOI manages this project. However, activities have stagnated recently. The reasons include rotation, promotion and retirement of trained local officials, difficulty for MOI to mobilize shindanshi under decentralization, and inadequate local capacity. There is, however, a desire to revive shindanshi within MOI.

8. Private sector efforts

Apart from government ministries and agencies, the private sector contributes significantly to Indonesia's industrial competitiveness and improvement of business climate. Such efforts should be scaled up, ideally with the government's policy support. Some organizations interviewed by the mission are discussed below.

The Indonesia Mold & Dies Industry Association (IMDIA)

IMDIA is an association of companies and institutions engaged in manufacturing, purchasing, marketing and/or maintenance of mold and dies, including those affiliated with Japanese FDI. It was established in February 2006 with the support of the Japanese private sector and the Ministry of Economy, Trade and Industry (METI). The idea of IMDIA originated from the Competitiveness/SMEs Working Group of the Strategic Investment Action Plan (SIAP)[16], a high-level public-private sector joint forum of Japan and Indonesia, which saw an urgent need to strengthen local supporting industries so Japanese firms could meet localization ratios required by the Indonesian government. Under the Japan Indonesia Economic Partnership Agreement (JIEPA), which was signed in August 2007 and became effective in July 2008, this bilateral public-private partnership was transformed into a mechanism for implementing JIEPA. IMDIA is unique because it is an Indonesian association under the KADIN umbrella, but its management and activities are strongly supported by the Japanese private sector and government.

IMDIA acts as a coordinator of programs related to local industry capacity development, particularly strengthening Indonesia's supporting industries. As of July 2014, IMDIA had 408 members. IMDIA's programs include: (i) METI-supported skill training of the local die and mold industry with the dispatch of 13 experts for group training during 2008-2012; (ii) dispatching experts to individual companies with the support of the Japan Foundation from 2008 to present; and (iii) skill evaluation activities, including training of skill evaluators, with the support of the Japan Vocational Ability Development Association. In FY2014, IMDIA plans to organize 52 workshops in such areas as mold design and management, die finishing, equipment maintenance, and mechanical inspection[17].

IMDIA is managed by Mr. Makoto Takahashi (Chairman) and Mr. Itsuo Tanigawa (Secretary General), two dedicated Japanese industrial experts who have their own businesses and work for IMDIA on a voluntary basis. IMDIA provides training for member companies free of charge (lecturers receive no fees). Since IMDIA does not have its own facilities, lecture rooms and training equipment are rented at various collaborating companies for which

[16] The SIAP was announced at the Japan-Indonesia Summit Meeting in June 2005 by Prime Minister Koizumi and President Yudhoyono as an initiative for promoting FDI from Japan to Indonesia. Its four working groups were Tax/Customs, Labor, Infrastructure, and Competitiveness/SMEs.

[17] For details, see http://www.imdia.or.id/english/profile/index.html

IMDIA pays fees and running costs. Japanese passion and support at IMDIA is laudable, but such *monozukuri* initiative should be eventually assumed and scaled up by local managers and experts so IMDIA will become a truly Indonesian-owned industry association.

Polytechnic Manufacturing Astra (Polman Astra)

Polman Astra is one of the leading private vocational training institutions in Indonesia. It was founded in 1995 by Astra International[18], the largest conglomerate in Indonesia, in order to fill gaps of the existing education to meet the need of industry. Vocational training was initiated by P.T. Astra Honda Motor, one of the affiliated companies, because of the difficulty to recruit workers with skills required by the industry. Polman Astra's vision is to be the best polytechnic in Indonesia.

Polman Astra provides three-year vocational training to produce D3 level (Diploma 3, below university) graduates in the field of automotive and natural resources with QCDI (quality, cost, delivery and innovation) mindset and discipline. Its programs consist of (i) mechanical engineering and tools manufacturing; (ii) manufacturing process and production engineering process; (iii) mechatronics; (iv) plantation crops process engineering; (v) informatics management; (vi) automotive engineering; and (vii) heavy equipment engineering. Emphasis is given to practical training (65%) over theory (35%). All curriculums are accredited by Astra Group industries, and students are given opportunities for internship at Astra Group companies during the last 6-9 months of the three-year training period. Uniqueness and strength of Polman Astra lies in its close linkage with the Astra Group which boasts a variety of leading manufacturing companies. This makes the institution guaranteed to be practical and useful.

About 220 students are taken annually. As of June 2014, there were 658 students enrolled with the cumulative number of students since establishment at 2,289. The Astra Group provides subsidies of about $1 million per annum, which enables Polman Astra to offer full scholarship to 35% of the students (tuition and living costs) and cover part of the training fees for other students. There are 55 full-time lecturers and 108 visiting lecturers. After graduation, about 60-70% of the students are placed in Astra group companies. Because of its renowned curriculums and promising job opportunities, entry selection is highly competitive. For the annual in-take of 220, there were 3,955 applicants in 2012, 3,474 in 2013, and around 5,000 in 2014. The majority of students (about 60%) come from Java.

In addition to the vocational training program, Polman Astra also operates: (i) training for

[18] Astra International is a holding company in seven fields: automotive, financial service, heavy equipment, manufacturing engineering, agribusiness, information and technology, and infrastructure. There are nearly 200 Astra Group companies including joint ventures with foreign partners—Toyota, Daihatsu, Isuzu, UD Trucks, Honda, BMW, Peugeot, Lexus, etc. Astra was established as a trading company by Mr. William Soeryadjaya (Chinese-Indonesian businessman) in 1957. Its successful joint venture with Toyota in 1969 had a domino effect prompting many other Japanese companies to work with Astra.

Astra staff; (ii) a center for vocational and educational development; (iii) a center for SME development; (iv) a center for commercial and product development; and (v) commercial production. Income from these activities is used to support the vocational training program.

Business organizations

KADIN is an umbrella organization of Indonesian business chambers and associations focusing on trade, industry and services. It was established by Law No.1 of 1987 as the only nationwide business organization to speak on behalf of private businesses. It has 33 regional chambers and 440 district branches. International chambers, such as the Jakarta Japan Club (JJC) and AmCham, are also members of KADIN. Being financed by membership fees, KADIN maintains independence from the government. The government consults with KADIN on the drafting process of all related laws and regulations. Recently, for example, KADIN commented on the draft Laws on Minerals and Industry

Within KADIN, there are bilateral committees to enhance trade and investment with partner countries. The Indonesia-Japan Economic Committee chaired by Mr. Sony B. Harsono is the main counterpart of JJC for exchanging views on Indonesia's business climate. At MPA High Level Consultations for Investment Promotion, JJC works closely with KADIN to address issues raised by Japanese companies in doing business, such as taxation, labor disputes, customs clearance, and predictability of laws. KADIN has been an important actor for Indonesia-Japan bilateral public-private dialogue.

APINDO, the Employers' Association of Indonesia, is an independent organization with the vision of creating a good business climate to realize real national development[19]. Its mission is to enhance competitiveness of Indonesian companies, realize harmonious industrial relations, represent the Indonesian business community in various national and international institutions particularly in employment organizations, and protect, empower and advocate all businesses, especially its members. APINDO has approximately 10,000 members in all parts of Indonesia which ranges from private enterprises to state-owned enterprises, local companies, joint ventures, and cooperatives. It is the sole body representing employers in all tripartite councils on industrial relations and manpower affairs.

APINDO is active in policy advocacy. It expressed serious concern over excessive increases in Provincial Minimum Wages in 2013, and stressed the need to depoliticize wage determination and promote social dialogue between employers and employees. APINDO also provides services to members at the national, provincial and district levels, such as consultation on industrial relations and manpower development, legal assistance,

[19] The predecessor of APINDO was formed in 1952 by a group of Indonesian employers under the name of PUSPI (Employer's Council on Socio-Economic Affairs). It was recognized in 1975 by decree of the Minister of Manpower, and mandated by KADIN to represent employers on industrial relations and manpower affairs. It was then renamed to APINDO in 1985.

representation at labor courts, and training programs on manpower affairs.

9. A note on the Indonesia-Japan economic relation

Economic ties between Indonesia and Japan have been long and strong, and Japan's contribution to the Indonesian economy has been immense. In March 2014, a JETRO survey counted at least 1,517 Japanese firms operating in Indonesia, which are mostly located in industrial zones east of Jakarta and whose number is rapidly on the rise. The manufacturing sector, especially automotive, is dominated by Japanese firms with over 90% of cars on Indonesian roads carrying Japanese brands. Since 2013, Indonesia has been the most popular FDI destination among Japanese firms. On the ODA front, Indonesia is currently the largest recipient of Japanese ODA. At end 2012, cumulative ODA loans, grants and JICA's technical cooperation to Indonesia amounted to 4.64 trillion yen ($46 billion), 276 billion yen ($2.7 billion), and 328 billion yen ($3.2 billion), respectively.

Despite such deep interaction for more than a half century, the quality of industrial policy and business environment in Indonesia remains weak as discussed in this report. Given the high expectation Japan has for Indonesia, and given the large volumes of FDI, ODA and trade in the past, this is a regrettable situation for Japan as well as for Indonesia. True, progress has been made in income and industrialization. But in comparison with rival economies in ASEAN—not to speak of the East Asian tigers—Indonesia's economic achievements have been modest and based more on quantity than quality.

Indonesia's new leader should take decisive actions to overcome the middle income trap as the top national agenda. However, in pursuing this objective, economic nationalism must be combined with well-informed market-oriented policy making, which seems to be lacking in today's Indonesia. On the Japanese side, change is also needed to upgrade the bilateral economic relationship. For a middle-income and key economic partner like Indonesia, Japan should formulate an "All Japan" industrial cooperation strategy (not just ODA-based assistance strategy) accompanied by regular public-private bilateral policy dialogue. The new approach should be more selective and strategic than at present and produce synergy between Japanese FDI and ODA in support of Indonesia's industrial development.

Specifically, the following are suggested.

First, a *long-term goal* of Japanese industrial cooperation in Indonesia must be set in a way consistent with Indonesia's national development plans. This goal should be unique to Indonesia, substantive, and fixed for at least a few decades. Second, concrete *medium-term targets*, whose progress can be monitored easily and continuously, should be agreed. Third, to realize these targets, a rolling *action plan* specifying who will do what by when (which includes actions by both Indonesia and Japan), together with performance criteria, should be constructed. Fourth, a bilateral high-level permanent mechanism (Industrial Policy

Dialogue) should be created to advise and supervise policy design as well as monitor the implementation of the action plan.

The MPA initiative with its Steering Committee and two Technical Committees is a good start. But what is proposed here is broader in scope and more solid as an institution than the current MPA-related meetings. It should be an annual or semi-annual permanent bilateral forum that should cover not just infrastructure projects and investment climate but also capacity building of local enterprises and industrial human resource, FDI-SME linkage, supporting industry promotion, logistic benchmarking, and standards, certification and testing, which collectively constitute the core of a nation's industrial capability. By implementing them with Japanese assistance, Indonesia will have a true industrial policy and policy-aided value creation. At present, policy initiatives in these areas are very fragile.

Finally, Indonesia's challenge—receiving massive aid and investment from Japan but policy capability and ownership remaining weak—is also visible in Vietnam, except that the latter's economic interaction with Japan is *only* two decades old instead of a half century. As an equally vital industrial partner of Japan, Vietnam-Japan economic relation must also be revitalized along a similar line.

Attachment:

1. Mission schedule

Attachment 1

Mission Schedule (15- 21 June 2014)

1. Mission Members

Kenicni Ohno	Professor, National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan
Izumi Ohno	Professor, National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan
Akemi Nagashima	Research Associate, National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan
Le Ha Thanh	Lecturer & Researcher, National Economics University & Vietnam Development Forum (VDF), Hanoi, Vietnam
Nguyen Thi Xuan Thuy	Director, Institute for Industrial Policy and Strategy, Ministry of Industry and Trade, Hanoi, Vietnam

2. Mission Schedule

DATE				TIME	ACTIVITY
1	Jun	15	Sun	PM	Arrival
2		16	Mon	AM	JICA Indonesia Office
				AM	JETRO Jakarta Office
				PM	The Jakarta Japan Club (JJC)
				PM	Deputy Minister (VII), Research & Development for Cooperative & SME Resources, Ministry of Cooperative and SME
3		17	Tue	AM	Secretariat General, Ministry of Industry
				AM	Directorate General of International Industrial Cooperation (KII), Ministry of Industry
				PM	Assistant Deputy, Spatial Planning and Development for Underdeveloped Regions, Coordinating Ministry for Economic Affairs (CMEA)
				PM	Deputy Minister (VII), International Economic and Financial Cooperation, Coordinating Ministry for Economic Affairs (CMEA)
				PM	Indonesian Chamber of Commerce & Industry (KADIN)
4		18	Wed	AM	Directorate General of Small and Medium Enterprises, Ministry of Industry
				AM	Directorate General of Leading and High Technology Based Industry, Ministry of Industry
				PM	The Employers' Association of Indonesia (APINDO)
				PM	Directorate of Industry, Science Technology, Tourism and Creative Economics, National Development Planning Agency (BAPPENAS)
5		19	Thu	AM	Agency for Industrial Policy, Business Climate and Quality Assessment (BPKIMI), Ministry of Industry
				AM	Department of Economics, Centre for Strategic and International Studies (CSIS)
				AM	Ministry of Industry (JICA Project on Small and Medium Industry Development Based on Improved Service Delivery)
				PM	Directorate of Sectors Investment Promotion, The Investment Coordinating Board (BKPM)
				PM	Ministry of Trade (JICA Project on Service Improvement of NAFED: National Agency for Export Development)
6		20	Fri	AM	Matsushita Gobel Foundation
				AM	Indonesia Mold & Die Industry Association (IMDIA)
				PM	Astra Manufacturing Polytechnic (POLMAN ASTRA)
				PM	Departure (Kenichi Ohno, Izumi Ohno & Akemi Nagashima)
7		21	Sat	PM	Departure (Le Ha Thanh & Nguyen Thi Xuan Thuy)