

Indonesia: innovation profile (Innovation in Southeast Asia)

Indonesia has risen to become a middle-income economy through appreciable levels of economic growth which have relied to a large extent on exports of natural resources and good trade links with leading global economies. However, Indonesia's GDP per capita remains relatively low (poverty remains a social problem) and it has only attracted modest levels of foreign direct investment (FDI). It has not developed a technology-intensive industry structure and imports of high-technology products outweigh exports. Increases in total factor productivity (TFP) have contributed to economic growth, but TFP growth levels have been lower than in competitor countries. Similarly, FDI is flowing into high- and medium-technology sectors, but input levels are low compared to those elsewhere, and many of its regional neighbours appear to be modernising their economies more rapidly and effectively. Until recently, government policies tended to neglect the development of an adequate scientific and technological base and framework conditions for innovation, but there is now a new emphasis on policies and mechanisms designed to stimulate innovation-led growth, with mechanisms freshly in place to oversee their co-ordination. Data capable of determining the effectiveness of these measures, however, are scarce. Significant improvements in infrastructure will be required to realise the government's growth ambitions -ICT infrastructure in particular is poor relative to much of the region- and other barriers to entrepreneurship and business risk holding back rapid knowledge-based economic development. The rapidly expanding higher education system is one means by which the innovation potential of Indonesia could be better harnessed, although the current momentum in this and other policy areas needs to be maintained in order for Indonesia to catch up with the capabilities of neighbouring countries and other competitors, and to continue its economic development

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