

UNBRIDLED AMBITION

But Has Indonesia Bitten Off Too Much?

BY JAYA PRAKASH



Indonesia is pushing full steam ahead with the infrastructure development projects that President Joko Widodo – more usually referred to as Jokowi – had promised when he took office two years ago. That drive is despite

innumerable odds that could either threaten, curtail or even hurt his infrastructure building drive.

“We aren’t just serious about building infrastructure, we’re very, very serious,” Jokowi said earlier this year, despite a state budget trimmed at its margins and which on its face could not allocate funds to all the projects. “This is something we absolutely must do to build the founda-

tion of our economy, even if the work is bitter at the beginning.”

Jokowi’s projects are ambitious and historic. His projects do not just include thousands of miles of new roads and railway lines, they also consist of new sea-ports, airports, power and smelter plants and dams. The projects are more than about jump-starting the economy; they are also about improving connectivity,



➤ A boy plays on concrete blocks for a road construction project in Bima, West Nusa Tenggara, Indonesia. Indonesian president Jokowi has laid out ambitious infrastructure plans for the country.

Credit: MAST IRHAM/EPA/Newscom

something not addressed since the departure of the nation's Dutch colonists some 70 years ago.

The high cost of not having proper roads and highways is causing its logistics costs to rise, too. The Indonesian Chamber of Commerce and Industry, known as Kadin Indonesia, said that about 17 percent of a company's total expenditure in Indonesia is absorbed by logistics costs. And nowhere is that better illustrated than in Indonesia's sea transportation system, where under the cabotage banner it is cheaper to import a product or produce from a foreign nation than to have that same commodity ferried across the country. That has caused Indonesian exporters and entrepreneurs to lose out on lucrative opportunities, as its logistics challenges have made the cost of its products and services unacceptably prohibitive.

As vast tracts of the country – especially in the far-flung regions of Papua or the eastern provinces of Celebes – have remained undeveloped, they have also remained inaccessible. Jokowi's drive to raise connectivity on the back of infrastructure investment will give greater social mobility, giving Indonesians a share in the fruits of the nation's economic prosperity and importantly, reintegrating them back into the economic, political and social life of the country.

While there is no guarantee that Jokowi's projects will ever come to pass, if they do, they will rival similar undertakings by China over the last 30 years. Like China, Indonesia is also eager to reduce the poverty that affects millions of its population.

Siwage Dharma Negara, a fellow and assistant coordinator, Indonesia Studies Program at Singapore's Institute of South-East Asia Studies (ISEAS), told *Breakbulk* that tackling poverty is actually the priority of the country's infrastructure projects.

POVERTY AND CONNECTIVITY

Indonesia's gross domestic product stands at US\$870 billion, according to the World Bank. Yet the bank stated that some 29 million Indonesians live in slums with poor basic services. Another

11 million lack access to sanitation and 9 million lack access to safe water. Indonesia's urban poor pay 10 to 30 times more to buy clean water from private providers compared to better-off families with access to water utilities.

Rodrigo Chaves, World Bank country director for Indonesia, said: "Addressing infrastructure and basic services gaps in urban slums is critical to ending extreme poverty, reducing inequality and boosting shared prosperity in Indonesia. The Slum Upgrading project will improve the lives of millions of Indonesia's urban poor and support the country in realizing its potential for higher growth. We commend the government of Indonesia for establishing this national platform, which will pave the way for all stakeholders to collaborate effectively."

With development comes connectivity, and with connectivity comes the accessibility to confront and rein in poverty through unhindered access that only roads, highways and rail lines could provide.

This is something we absolutely must do ... even if the work is bitter at the beginning. – Joko Widodo

Indeed, roads and highways have become Indonesia's overriding priority items. Negara highlights the planned Trans-Sumatra toll road; Trans-Java toll road; railways in Java, Sumatra and Kalimantan; seaports; and airports as key projects. The Trans-Java toll network, for instance, provides unbroken toll roads in the country's main island. Meanwhile, a high-speed railway network from Jakarta to Bandung, given to a Chinese consortium, will potentially change the face of rail travel in the country, along with the construction of a 720-kilometer railway from Jakarta to Surabaya that was awarded to Japanese investors.

The toll roads are part of Jokowi's plan to add at least 1,100 kilometers of functionally operable roads by the end of his term in 2019. And that is only the

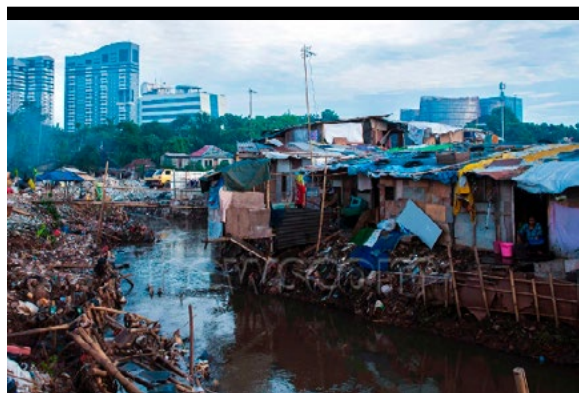
icing on the cake. Also in the pipeline is the Balikpapan-Samarinda Toll Road, Manado-Bitung Toll Road, Serang-Panimban Toll Road, Soekarno-Hatta Railway, North-South Line Jakarta MRT, Makassar-Parepare Railway, Light Rail Train (LRT) South Sumatra, and the East Kalimantan Railway, among others.

With 17,400 islands, close to 2 million square miles of land, three time zones and a land mass straddling the continents of Asia and Oceania, the nation is almost half the size of continental Europe. Its huge land mass and a population of 257 million makes Indonesia a colossus in its own right, explaining its huge appetite for water processing systems, power plants, and electrical transmission grids. These include a power plant for Batang, an electric steam power plant for South Sumatra, oil refineries and a port each for Bitung and Kuala Tanjung, and hydroelectric power plants.

However, the grand plans only scratch the surface of what is needed to tackle poverty and develop nationwide connectivity. Papua, a province in the far-flung eastern reaches of the country that is rich in mineral and natural resources, has remained untapped for decades. Lifting mobility there will almost certainly help in reducing poverty across the expanse of the country.

A slum area in Jakarta. An estimated 29 million Indonesians live in slums. Infrastructure improvements aim to bring basic services to Indonesia's poor population.

Credit: Yuan Adriles/Polaris/Newscom



MIND THE FUNDING GAP

But where will funds come from for these grand plans? “Finance is the main issue, not the technical expertise,” said Elly R. Sudibjo, an environmental expert at the Indonesian Ocean Council.

Just how dire the financial situation in the country is and has been can be seen in the failure of a project to provide some 35 gigawatts of electricity by 2019, which fell through because of financial considerations. This grandiose project was slated to provide some 97 percent of the nation’s electrical needs.

There are no accurate estimates on just how much investment Indonesia needs to overhaul its country. Various news reports have placed the figure at between US\$400 billion and US\$450 billion. These funds could have been requested from the International Monetary Fund, but Indonesia is reluctant to ask the lender, deterred by issues it has faced in the past with the World Bank. Instead, the country is banking heavily on the amount of tax revenue it could recoup from the tax exiles living overseas, and who it is prepared to pardon.

Finance Minister Sri Mulyani said that in addition to generating tax revenue, the tax amnesty would provide the government with better data about the nation’s economic potential, which will lead to better policies. In fact, the tax amnesty program has netted close to US\$79 billion which, considering the scale of funds needed for the planned infrastructure projects, is still too small to get them all off the ground.

Another fund-raising initiative was to secure and consolidate fishing rights in its territorial waters. Fishing is an industry that has the potential to rake in billions of dollars if Jakarta can keep illegal Chinese trawlers out of its waters.

However, while Indonesia has come a long way in improving its tax system both in terms of revenues raised and administrative efficiency, the tax take-up rate is still painfully low. Negara said that could hurt the infrastructure drive and force the country to scale

back on some of the key plans aimed at connectivity.

Measures to broaden the nation’s tax base aimed at bringing more self-employed into the tax system are noticeably absent, as are plans aimed at enhancing investment incentives. However, a streamlined and comprehensive tax regime is just what Jakarta needs, says the Organisation for Economic Cooperation and Development.

It is not just the funding of projects that smarts; foreign and private sector interest in projects has been lukewarm on the back of a complex administrative system that has left many investors either cautious or plainly unenthusiastic about wanting to participate in the nation’s development. The country’s geographical location brings further challenges, lying atop the Pacific Ring of Fire, where natural calamities such as earthquakes and landslides add a layer of uncertainty to the global investing community.

Edi Saputra, an analyst with Wood Mackenzie, said: “It’s not only about the funds per se, but also about participation from the private sectors to assist with the development of the power plant projects. Foreign direct investment is needed as it provides financing as well as access to skills and technology.”

Another problem is Indonesia’s licensing regime, which Saputra described as “a real hindrance.” Despite these issues, some investors are participating in the nation’s development. If the administrative process is improved, take-up rates will likely be considerably higher.

In response, Indonesia has inaugurated the BKPM, or Indonesian Investment Coordinating Agency, designed to provide a one-stop permitting solution. But what it urgently needs to do is to bring the global community on board.

What Jokowi is promising goes far beyond anything his predecessors have done and there is the possibility that his ambitions will outlive his term in office or be scaled back. But if he manages to pull off a fraction of that which is planned, project cargo specialists will be kept busy in Indonesia. **BB**

Jaya Prakash is a Singapore-based maritime analyst with wide-ranging knowledge on Asia.

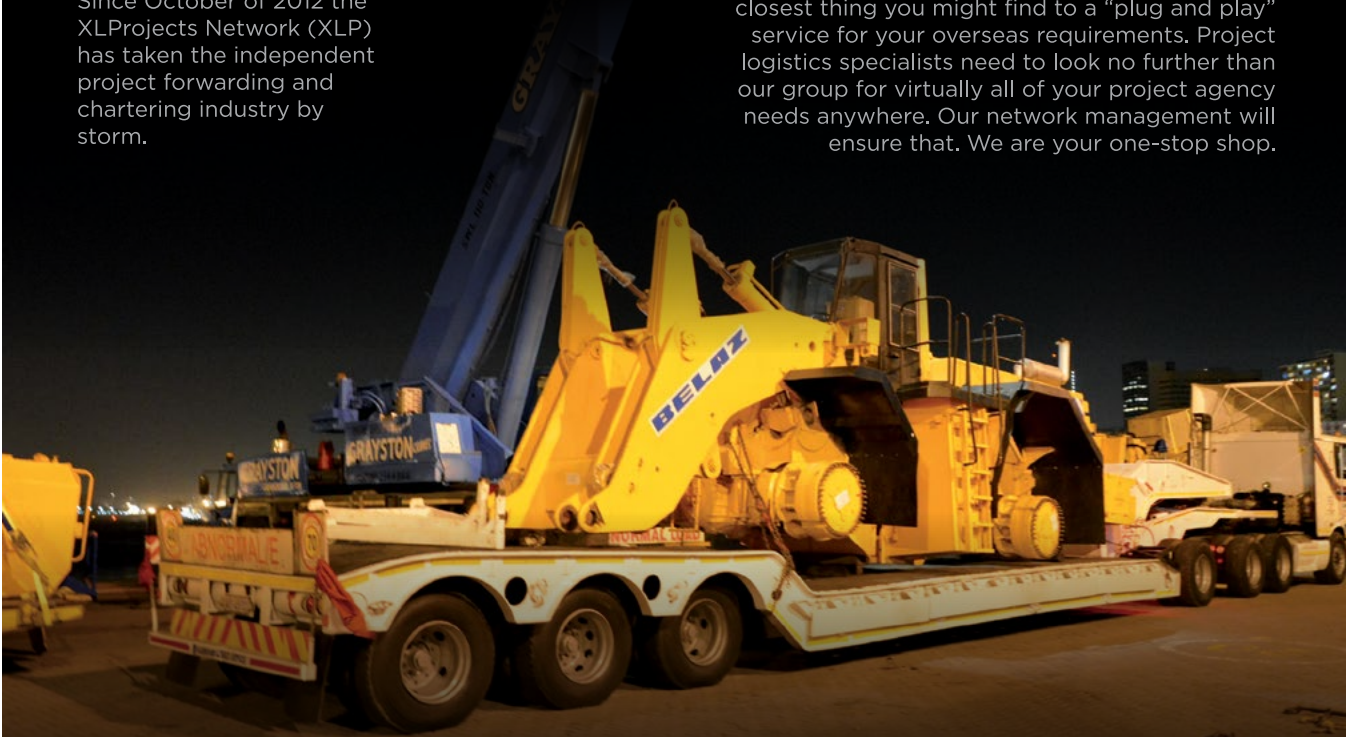
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