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## **Challenges for Indonesia to achieve its Maritime Connectivity Plan and Leverage on Regional Initiatives**

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### **EXECUTIVE SUMMARY**

- Indonesia, aspiring to be a global maritime fulcrum, launched the Sea Toll Road project to improve national connectivity within the archipelago. The cost of the project is around IDR 700 trillion (US\$ 53 billion), which is difficult to be matched by the government's annual budget.
- The Master Plan for ASEAN Connectivity, seen as an initiative to facilitate trade and investment in the region, covers many physical and maritime infrastructure projects. China has also come to the forefront with its regional connectivity plan of Belt and Road Initiative and its attached financing schemes.
- There is convergence of interest for maritime connectivity among Indonesia, ASEAN and China. The political leaders have acknowledged this complementarity at different points in time.
- Indonesia's developmental project does have the potential to gain access to a larger pool of financial resources of regional plans. But currently, the country has several challenges – issues with land acquisition, coordination across multiple government agencies and skepticism towards Chinese infrastructure funding – which is slowing down its capacity to benefit from bigger ideas at regional level.
- Going forward, Indonesia should think how to take advantage on the complementarity between national and regional projects, resolve its domestic investment bottlenecks and earnestly try to leverage on the regional financing schemes to realize its maritime connectivity plan.

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## INTRODUCTION

Improved inter-island infrastructure for an archipelagic Indonesia is one of the important development pillars of President Joko “Jokowi” Widodo’s maritime plan. Most often, underdeveloped and badly managed infrastructure networks have been cited as key factors contributing to poor performance of Indonesia’s logistic sector. This hampers the mobility of goods and people in and across the nation-state and also constrains the country’s economic growth.

Improved infrastructure and connectivity is also discussed at regional level. ASEAN discusses it in the Master Plan on ASEAN Connectivity (MPAC) and recognises better connectivity as a necessary condition for advancing regional economic integration. China has come up with its own proposal for better connectivity between Asia and Europe through Belt and Road Initiative (BRI).<sup>1</sup> In addition, China has devised financial mechanisms like the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund (SRF) to support infrastructure projects in countries that will be part of the BRI.

Given the discussion of connectivity at different levels of geography, this paper argues that there is complementarity between these national and regional plans, where the former has the potential to leverage on the latter’s larger pool of resources. However, much depend on how Indonesia deals with its domestic challenges and offer itself as an attractive infrastructure investment destination.

## INDONESIA’S MARITIME PLAN

In his inaugural speech as President in October 2014, Jokowi stated that as an archipelagic country, Indonesia must develop its vast sea resources to raise its maritime competitiveness.<sup>2</sup> Subsequently, during the 2014 East Asia Summit (EAS) in Myanmar, Jokowi presented his vision to transform Indonesia into a global maritime fulcrum and to develop its maritime economy.<sup>3</sup> This is not a new idea but has been in Indonesia’s ‘Archipelagic Doctrine’ which was espoused under the Juanda Declaration in 1957<sup>4</sup>.

Under the maritime fulcrum, Jokowi’s government indicates its commitment to revive Indonesia’s maritime identity in the face of the existing challenges that include illegal fishing, human trafficking and climate change in the maritime regions. Besides, Indonesia’s strategic position between the Pacific and the Indian Ocean, encompassing

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<sup>1</sup> Previously China uses the term ‘One Belt and One Road’ (OBOR) and recently it was changed to Belt and Road Initiative (BRI). <http://english.gov.cn/beltAndRoad/>

<sup>2</sup> Kompas. *Laut Masa Depan Indonesia*. 21 Oktober 2014. <http://bisniskeuangan.kompas.com/read/2014/10/21/111249326/Laut.Masa.Depan.Indonesia>. Accessed: 6 March 2016.

<sup>3</sup> See Bantarto Bandoro, “Indonesia’s Maritime Role Hinges on ‘Pillars’“. The Jakarta Globe. 27 November 2014. <http://thejakartaglobe.beritasatu.com/opinion/indonesia-maritime-role-hinges-on-pillars/>. Accessed: 28 March 2016.

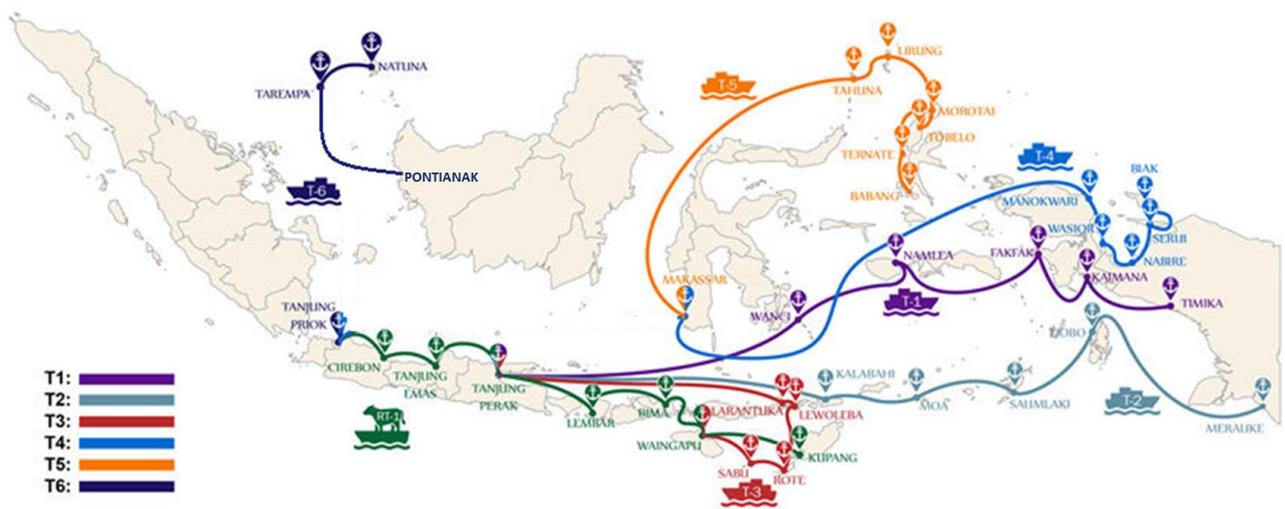
<sup>4</sup> See Hasjim Djalal, 1995. *Indonesia and the Law of the Sea*. Centre for Strategic International Studies.

some of the most dynamic economies in the world, makes it natural for the country to strengthen its maritime connectivity.

Currently, Indonesia’s maritime fulcrum is mostly inward oriented. It is set as a developmental strategy to narrow the economic gap in the archipelago. In this regard, the Sea Toll Road project, started in November 2015, is planned to enhance inter-island connectivity and strengthen the port infrastructure of the country (Figure 1).<sup>5,6</sup> The project aims to reduce price disparity (especially between Java and outside Java) and boost commerce within the country, while positioning Indonesia as a hub for international trade in the broader ASEAN and Indo-Pacific regions.

The Sea Toll Road project essentially connects five major ports - Belawan in North Sumatra, Tanjung Priok in Jakarta, Tanjung Perak, Surabaya in East Java, Makassar in South Sulawesi, and Sorong in Papua - and several smaller ports all over the country. As shown in Figure 1 and Table 1, most of the freight (return) routes in this project are directed towards the remote areas of Eastern part of Indonesia. T-6 route is set to cover the Natuna Island, located in South China Sea. Presently, the government is subsidising the freight rates as the load factor is unable to cover the operational costs. The sustainability of this freight operation will eventually depend on whether it can attract shippers, traders and manufacturers to use the services more frequently.

**Figure 1: Indonesia’s Sea Toll Road Network**



Source: <http://dephub.go.id/welcome/readPost/dukung-tol-laut-lewat-empat-fokus-kerja-kemenhub>. Accessed 12 December 2016

<sup>5</sup> See the Jakarta Post, “Here comes the sea toll road”, 11 November 2015, <http://www.thejakartapost.com/news/2015/11/11/editorial-here-comes-sea-toll-road.html#sthash.VaJNGcea.dpuf>. Accessed: 28 April 2016.

<sup>6</sup> The Sea Toll Road project was originally introduced by the previous government as ‘the archipelago pendulum’ to support the maritime economy,

**Table 1: Indonesia's Sea Toll Road Network**

Route	Distribution hub	Network	Capacity (TEUs)
T-1	Tanjung Perak, Surabaya, East Java	Tg. Perak – Wanci – Namiea – Fakfak – Kaimana - Timika	115
T-2	Tanjung Perak, Surabaya, East Java	Tg. Perak – Kalabahi – Moa – Saumlaki – Dobo -Merauke	350
T-3	Tanjung Perak, Surabaya, East Java	Tg. Perak – Larantuka – Lewoleba – Rote – Sabu -Waingapu	115
T-4	Makassar, South Sulawesi	Makassar – Manokwari – Wasior - Nabire Serui -Biak	350
T-5	Makassar, South Sulawesi	Makassar – Tahuna – Lirung – Morotai – Tobelo -Ternate - Babang	350
T-6	Pontianak, West Kalimantan	Pontianak – Tarempa - Natuna	3000 ton (general cargo)

Source: <http://hubla.dephub.go.id/berita/Pages/Evaluasi-Trayek-Pelayaran-Tol-Laut-DUA-RUTE-PELAYARAN-TRAYEK-TOL-LAUT-BERUBAH.aspx>. Accessed 12 December 2016

The implementation of the sea toll road project needs a huge investment and operational costs. According to Indonesia's Ministry of Planning, the total cost of this ambitious project is estimated to be around IDR 700 trillion (US\$ 53 billion), including investment to build 24 commercial seaports, 1,481 non-commercial seaports, 15 industrial areas, and buying new vessels.<sup>7</sup> This investment is unlikely to be matched by the government budget<sup>8</sup> and hence Indonesia has to look for multiple funding options. This is where Indonesia should consider leveraging on the regional initiatives of ASEAN and China.

## REGIONAL CONNECTIVITY INITIATIVES

The following two sub-sections look at the possibility of complementarity between Indonesia's maritime plan and the ASEAN and China initiatives.

### ASEAN Connectivity Master Plan

The Master Plan for ASEAN Connectivity (MPAC) was launched in 2010 to improve on regional infrastructure, more particularly the physical and maritime facilities, thereby

<sup>7</sup> See Nadya Natahadibrata, "Govt sets out maritime dream", *The Jakarta Post*, 22 November 2014. <http://www.thejakartapost.com/news/2014/11/22/govt-sets-out-maritime-dream.html>. Accessed: 28 April 2016.

<sup>8</sup> By comparison, total government infrastructure spending is only IDR 317.1 trillion in the revised 2016 state budget. In the 2017 state budget, it is increased to IDR 387.3 trillion.

strengthening the ASEAN Economic Community (AEC).<sup>9</sup> MPAC 2010 was advanced in 2016 to MPAC 2025. The plans outlined several key actions, including enhancement of maritime interconnections like improvement of ASEAN-wide 47 designated ports, establishment and strengthening of shipping routes both at regional and domestic-levels, development of Roll-on/Roll-off (Ro-Ro) projects. ASEAN countries have also adopted several transport facilitation agreements across borders and intend to set up and operate the ASEAN Single Window (ASW) in selected ports as soon as possible.

Indonesia is covered extensively under this MPAC. Some of the ASEAN prioritized maritime projects under Indonesia are: Malacca-Dumai (Riau Island, Indonesia), West Kalimantan-Sarawak Interconnection and feasibility studies of ASEAN Ro-Ro network. Among the 47 designated ports for upgradation, 14 are located in Indonesia, i.e., Belawan, Dumai, Palembang, Panjang, Tanjung Priok, Tanjung Emas, Tanjung Perak, Pontianak, Banjarmasin, Balikpapan, Makassar, Bitung, Sorong and Jayapura (Figure 2). Almost all of these ports are also identified under Indonesia government’s Sea Toll Road project.

**Figure 2: 47 Designated Ports in ASEAN, including 14 in Indonesia**



Source: [http://www.lms.polyu.edu.hk/OBOR2016/files/slides/\(PS-A\)%20Zen,%20Fauziah.pdf](http://www.lms.polyu.edu.hk/OBOR2016/files/slides/(PS-A)%20Zen,%20Fauziah.pdf). Accessed 30 November 2016.

<sup>9</sup> The ASEAN Secretariat (2010), Master plan on ASEAN Connectivity ([http://www.asean.org/storage/images/ASEAN\\_RTK\\_2014/4\\_Master\\_Plan\\_on\\_ASEAN\\_Connectivity.pdf](http://www.asean.org/storage/images/ASEAN_RTK_2014/4_Master_Plan_on_ASEAN_Connectivity.pdf); accessed on 30 November 2016)

The ASEAN Ro-Ro network, covering four member states, includes three routes engaging Indonesia. These are General Santos (Philippines) - Bitung (Indonesia), Malacca (Malaysia) - Dumai (Indonesia) and Belawan (Indonesia) - Phuket (Thailand). All three ports under ASEAN Ro-Ro initiative are also covered under 47 designated ports. Other areas, like ASW that depends heavily on readiness of single window at national level, also have some implications for improved maritime connectivity in Indonesia.

With so much of complementarity, it is not surprising that in his 2014 EAS speech in Myanmar, Jokowi urged ASEAN members to actively support the MPAC, especially the maritime infrastructure and connectivity.<sup>10</sup>

In addition to the planned projects, Indonesia also benefits from ASEAN's ideas for project implementation. For example on physical infrastructure, as financing is a key impediment, the region has designed a stakeholder engagement mechanism, ranging from dialogue partners, private sector and international organizations. ASEAN has also developed the ASEAN Infrastructure Fund (AIF) in collaboration with the Asian Development Bank (ADB) to facilitate increased investment in the regional infrastructure projects. Indonesia, being the biggest economy in the region and having huge market potential, does have a lot to gain from its partnership in ASEAN.

A case in point is the recently concluded ASEAN G2B Infrastructure Investment Forum, where as many as nine ASEAN infrastructure projects were presented to potential investor (Table 2). Of the nine projects, eight belong to Indonesia and one to Laos. Two of the eight projects are related to maritime connectivity. The Head of National Development Planning Board (Bappenas), Bambang Brodjonegoro, acknowledges the potential to synergize various initiatives under the MPAC 2025 with Indonesia's plans.<sup>11</sup> However, much needs to be done in terms of Indonesia's domestic policy priority before it can fully leverage on ASEAN initiatives.

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<sup>10</sup> Jokowi Launches Maritime Doctrine to the World, The Jakarta Post, 13 November 2014. <http://www.thejakartapost.com/news/2014/11/13/jokowi-launches-maritime-doctrine-world.html>. Accessed: 12 September 2016.

<sup>11</sup> Farida Susanty, "Indonesia holds key to future of ASEAN physical connectivity", The Jakarta Post, 9 November 2016. <http://www.thejakartapost.com/news/2016/11/09/indonesia-holds-key-to-future-of-asean-physical-connectivity.html>. Accessed: 9 November 2016.

**Table 2: List of Project presented in ASEAN G2B Infrastructure Investment Forum**

	<b>Project</b>	<b>Country</b>	<b>Estimated investment value</b>	<b>Type</b>
1	Ro-Ro Bitung – Davao	Indonesia & Philippines	N.A.	Maritime
2	Kuala Tanjung Port	Indonesia	IDR 17 trillion	Maritime
3	35,000 MW Programme	Indonesia	IDR 1,189 trillion	Energy
4	Soekarno Hatta Railway	Indonesia	IDR 26 trillion	Railway
5	Jakarta - Surabaya High Speed Train	Indonesia	IDR 150 trillion	Railway
6	Kertajati International Airport	Indonesia	IDR 24.5 trillion	Air transport
7	Laos Road No.3 (ASEAN Highway)	Laos	US\$ 85 million	Land transport
8	Yogyakarta - Bawen Toll Road	Indonesia	IDR 10.7 trillion	Land transport
9	Sukabumi - Ciranjang - Padalarang Toll Road	Indonesia	IDR 20.3 trillion	Land transport

Source: <http://www.indonesiainfrastructureweek.com/ASEAN>. Accessed 12 December 2016

### China's Initiatives

During 2013-2014, China came to the forefront with its regional connectivity drive. It proposed BRI, including the 21<sup>st</sup> century Maritime Silk Road (MSR), connecting China with Southeast Asian countries, Africa and Europe (Figure 3). The idea is to encourage Chinese firms to venture into emerging economies that have trade and investment links with China.

**Figure 3: China's Belt and Road Initiative**



Sources: Xinhua, [http://news.xinhuanet.com/english/2016-06/24/c\\_135464233.htm](http://news.xinhuanet.com/english/2016-06/24/c_135464233.htm).

Indonesia is seen as strategically important for China's regional plan. The bilateral trade between the two has gone up from US\$8.7 billion in 2004 to US\$44 billion in 2015, mainly driven by China's rising demand for energy and natural resources. China's investment has also been growing rapidly in Indonesia: it grew from a lower base of US\$ 32 million in 2006 to reach US\$ 628 million in 2015. China now ranks fourth after Singapore, Japan and Hong Kong in terms of investment realization in Indonesia.<sup>12</sup>

In addition, China has established a multilateral lending institution, AIIB, in 2013, in which Indonesia is the eighth-largest shareholder with US\$ 672 million capital investment.<sup>13</sup> With an authorized capital of US\$100 billion, the bank has commenced its operation earlier in 2016. Beijing has also created a Silk Road Fund (SRF), worth US\$40 billion, for investment in infrastructure projects.

Considering its geographical position, Indonesia is an integral part of China's MSR. There is a significant stretch of MSR that falls in Indonesia and connect the ports of Natuna, Pontianak and Tanjung Priok. It should be noted that, during the 2013 President Xi Jinping's inaugural visit to Southeast Asia, he made his first stop in Indonesia and elevated China-Indonesia relationship from a strategic partnership to a comprehensive strategic partnership. Most importantly, it was during this trip that MSR was introduced to the region as President Xi mentioned 'China will strengthen maritime cooperation with

<sup>12</sup>

[http://www5.bkpm.go.id/images/uploads/investasi\\_indonesia/file/PRESS\\_RELEASE\\_REALISASI\\_INVESTASI\\_TW\\_I\\_2016\\_-\\_IND.pdf](http://www5.bkpm.go.id/images/uploads/investasi_indonesia/file/PRESS_RELEASE_REALISASI_INVESTASI_TW_I_2016_-_IND.pdf). Accessed: 26 September 2016

<sup>13</sup> <http://www.indonesia-investments.com/id/berita/kolom-berita/indonesia-pemegang-saham-terbesar-ke-8-di-asian-infrastructure-investment-bank/item5692>. Accessed: 26 September 2016.

ASEAN countries to make good use of the China-ASEAN Maritime Cooperation Fund set up by the Chinese government and vigorously develop maritime partnership in a joint effort to build the MSR of the 21<sup>st</sup> century'.<sup>14</sup> Later, President Xi also mentioned that there is great potential for partnership between Indonesia's maritime fulcrum and Chinese investment through the framework of the MSR.<sup>15</sup>

Indonesia is well-positioned to benefit from Chinese BRI as a number of transport infrastructure projects that complementary with the MSR can access funds from AIIB and SRF. However, things seem to move slowly in Indonesia due to its domestic challenges and latent negative perception about Chinese investment in the country.<sup>16</sup>

### **Challenges for Indonesia**

Resource mobilisation is a key aspect to realise the infrastructure plans in a country. Government of Indonesia, in order to manage the infrastructure deficit, has pushed the infrastructure budget to IDR313 trillion in 2016. This is 15 per cent of total state expenditure, a significant jump compared to an average of 8 per cent during 2005-2014. However, this is not enough. The government cannot exclusively rely on state funding as it has to contain the country's fiscal deficit below 3 per cent of GDP. Moreover, the government run the risk of revenue shortfall which may push it to delay the execution of various state-funded projects. In this case, private sector participation, both domestic and foreign, needs to be encouraged. But to engage the private sector in infrastructure funding, it requires a conducive investment climate. The three key challenges that is currently throttling Indonesia's attractiveness as infrastructure investment destination and has bearing on its ability to leverage on regional connectivity plans are mentioned below:

#### ***1. Land acquisition***

Land acquisition has been a serious obstacle for many infrastructure projects with the private sector required to cover up to 30-40 percent of the total investment costs. The 2012 Land Acquisition Law is meant to speed up the process with time limits established to contest and sell land, independent appraisals for property valuation and responsibilities designation for every stage of the process. However, implementation of the law depends on clear operational frameworks and capability of key executing agencies. The case of Batang 2x1000 MW power plant in Central Java show the complexity of this land acquisition issue. It took almost five years for the investor to clear the land.<sup>17</sup>

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<sup>14</sup> Speech by Chinese President Xi Jinping to Indonesian Parliament, 3 October 2013, ASEAN-China Centre. [http://www.asean-china-center.org/english/2013-10/03/c\\_133062675.htm](http://www.asean-china-center.org/english/2013-10/03/c_133062675.htm). Accessed: 12 September 2016.

<sup>15</sup> Shannon Tiezzi, Indonesia, China Seal 'Maritime Partnership', The Diplomat, 27 March 2015 <http://thediplomat.com/2015/03/indonesia-china-seal-maritime-partnership/>. Accessed: 26 September 2016

<sup>16</sup> <http://koran.bisnis.com/read/20160801/245/570703/menyikapi-pro-kontra-investasi-china->. Accessed: 3 November 2016.

<sup>17</sup> <http://www.cnnindonesia.com/ekonomi/20160609142826-85-136939/masalah-pembebasan-lahan-pltu-batang-bikin-jokowi-meradang/>. Accessed 12 December 2016

Moreover, lack of clear, consolidated, nationwide land tenure data remain an ongoing challenge that needs to be addressed quickly.

## ***2. Coordination problem***

Lack of coordination between the central, provincial, and regional governments remains key obstacle for many infrastructure projects. For example, Indonesia has a cumbersome Public Private Partnership (PPP) permit process, which entails obtaining more than 40 permits and licenses from various government agencies. Any PPP project need to apply for a business license, secure approvals for the project's technical specifications, obtain operating permits, and secure approval for construction. The Central Java power plant project required more than 50 permits and licenses prior to construction. Moreover, Indonesia's decentralized government adds further complexity, with regional permitting agencies issuing conflicting approvals.

To address this coordination issue, a centralised government body, the Committee for Acceleration of Priority Infrastructure Delivery (KPPIP), was set up recently for monitoring, coordinating and speeding up of implementation process. The Committee is led by the Coordinating Minister for Economic Affairs and consists of the Minister of Finance, Minister of PPN (National Development Planning)/Head of Bappenas (National Development Planning Agency), and Minister of Agrarian Affairs and Spatial Planning. KPPIP has the mandate to select National Strategic Projects (PSN), which will be given privileges and accelerating facilities as stipulated by Presidential Regulation No. 3/2016 on Acceleration of the Implementation of National Strategic Projects. Nonetheless, it remains to be seen whether KPPIP will be successful in overcoming the challenges for infrastructure investment in the country.

## ***3. Scepticism against Chinese Funding***

Latent scepticism towards Chinese investment is prevalent in Indonesia. For a newly democratic country, the trend of increase Chinese funding is often used as a political tool to criticize and attack the government's policies. There are accusations in social media that President Jokowi and few ministers are inviting not only Chinese funding but also its blue-collar workers and the related communist ideology<sup>18</sup>. This xenophobia and anti-foreign sentiments are present since the onset of the modern Indonesian republic in 1945. Today's anti-Chinese sentiment is revived by painting Chinese investment as modern coloniser similar to the Dutch. Such misguided and simplistic views continue to be a challenge, especially in presence of Chinese-led multilateral funding agencies, AIIB and SRF.

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<sup>18</sup> <http://www.republika.co.id/berita/jurnalisme-warga/wacana/16/07/19/oainep336-impor-pekerjain-cina-komunisme-dan-ancaman-kerapuhan-sosial>. Accessed 12 December 2016.

## CONCLUSION

Indonesia's maritime connectivity plan is concurrently being developed at a time when both ASEAN and China are also placing emphasis on infrastructure. This form of shared interest in infrastructure development offers great opportunities for national governments. They can benefit not only from the studies of soft and hard infrastructure projects but also from bigger pool of financial resources. Acknowledging this, political leaders of Indonesia have placed immense importance to foreign investors and have also recognised ASEAN as an institution to attract international stakeholders.

However, there are several challenges. Indonesia needs to get its domestic act together before it can offer an attractive investment destination for infrastructure projects and leverage on the regional initiatives.

Given that Jokowi will enter his third year of presidency, it is high-time that he gives priority to accelerate his maritime development project. He not only needs to have a buy-in of the Sea Toll Road project from the public and private sectors but also needs to consider the big picture of infrastructure development in the wider geography. This is an essential exercise as, generally, infrastructure plans are drawn on stand-alone basis, without giving much consideration to the others. This may lead to overlap of activities and loss of scarce resources. As most of the developing countries, including Indonesia, are cash-strapped to invest in infrastructure projects on their own, it is wise for the national policy makers to look for regional or other international mechanisms that has more resources, thereby benefiting from the shared interest of infrastructure building.

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