

# PERSPECTIVE

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## Jakarta-Bandung High Speed Rail Project: Little Progress, Many Challenges

By Siwage Dharma Negara and Leo Suryadinata\*

### Executive Summary

- The Jakarta-Bandung High Speed Rail Project, a key strategic project for President Joko “Jokowi” Widodo’s infrastructure development agenda, is a joint venture between Indonesian and Chinese state-owned enterprises.
- The loan agreement was signed during Jokowi’s visit to Beijing in May 2017, but only after China insisted on full assurance of land provision, including the enactment of relevant bylaws.
- The project, scheduled for completion in 2019, has been delayed by land acquisition problems. China has halted the release of its loan to the project developer.
- Jakarta-Beijing relations remain cordial, while continued land conflicts caused by the project may harm President Jokowi’s chances for re-election in 2019.

\* *Siwage Dharma Negara and Leo Suryadinata are Fellow and Visiting Senior Fellow respectively at ISEAS – Yusof Ishak Institute. They wish to thank Tham Siew Yean and Cassey Lee for comments and suggestions made on an earlier draft and to Benjamin Hu for producing the map in Figure 1.*

## INTRODUCTION

The Jakarta-Bandung high-speed-rail project (HSRP) is part of President Joko “Jokowi” Widodo’s ambitious infrastructure development plan, which will cut travel time between the two cities in western Java from about three hours by car to just 40 minutes. The US\$5.5 billion project is funded mainly by a loan from China.

This high-profile project has been plagued by issues since its inception, including questionable benefits, a lack of proper environmental impact studies, a lack of consistency with regional spatial plans, an unclear business modality, as well as an opaque tender process that caused diplomatic tension with Japan. Since the ground-breaking ceremony in January 2016, much doubt has been cast on whether the project can be completed by the 2019 target.

The first section of this paper briefly discusses controversies surrounding the project, including the financing scheme and the role of state-owned enterprises (SOEs), followed by a discussion on challenges faced by the project developer. The last section examines the project’s potential negative political implications for Jokowi.

## BRIEF BACKGROUND OF THE JAKARTA-BANDUNG HSRP

Controversies have surrounded the Jakarta-Bandung HSRP from the very beginning. Much has been discussed about how Japan, the initial bidder, was outdone by China’s more attractive financing scheme that does not require any government guarantee.<sup>1</sup> Nevertheless, some argue that the scheme offered by China is misleading since Indonesia’s SOEs have to eventually bear the cost of the project.<sup>2</sup>

In addition, there are doubts about the project’s return on investment, which has so far been based on unrealistic projections on expected numbers of passengers.<sup>3</sup>

The Jakarta-Bandung HSRP is a flagship project that fronts Jokowi’s ambition to upgrade Indonesia’s lagging infrastructure. Designated as one of Jokowi’s national strategic projects under Presidential Regulation No. 3/2016 (see Table 1), the project calls for the government and related agencies to give it priority through means such as accelerating the issuance of permits.

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<sup>1</sup> Wilmar Salim and Siwage Dharma Negara, ‘Why is the High-Speed Rail Project so Important to Indonesia’, ISEAS Perspective No. 16, 2016. Leo Suryadinata, ‘The Growing “Strategic Partnership” between Indonesia and China Faces Difficult Challenges’, ISEAS Trends in Southeast Asia No. 15, 2017.

<sup>2</sup> Yohanes Harry Douglas, ‘Proyek Kereta Cepat Berpotensi Rugikan Konsorsium BUMN’, Berita Satu, 10 October 2015. <http://www.beritasatu.com/ekonomi/313407-proyek-kereta-cepat-berpotensi-rugikan-konsorsium-bumn.html>. Accessed 28 November 2017.

<sup>3</sup> The number of passengers for the Jakarta-Bandung route is assumed to reach 61,000 per day in 2019. This number is projected to reach 135,000 passengers per day by 2050. The project developer sets ticket cost at around US\$16 (IDR 224,000).

**Table 1: Key dates for the Jakarta-Bandung HSRP**

Key Date	Project milestone
29 September 2015	The government of Indonesia turns down the Japanese bid in favour of China's to build the 142-km long high-speed rail connecting Jakarta and Bandung
6 October 2015	Jokowi signs Presidential regulation (Perpres) No. 107/2015 on the acceleration of infrastructure and facilities and assigns the Indonesia-China High-speed rail consortium (PT KCIC) to implement the project
16 October 2015	PT Pilar Sinergi BUMN Indonesia (PSBI) and China Railway International Co Ltd sign a joint venture agreement
8 January 2016	Jokowi signs Presidential regulation (Perpres) No. 3/2016 on the acceleration of 12 strategic national projects, which include the HSRP
21 January 2016	Project ground-breaking in Walini, West Java, attended by President Jokowi
16 March 2016	The government of Indonesia grants a fixed concession period of 50 years to PT Kereta Cepat Indonesia China (KCIC) to operate the project starting on May 31, 2019
18 July 2016	Transport Minister approves construction permit for the project
7 April 2017	Jokowi signs Government regulation (PP) No. 13/2017 to revise PP No 26/2008 on National Spatial Planning
14 May 2017	PT KCIC and China Development Bank (CDB) signs a loan agreement amounting to US\$4.5 billion in Beijing
31 July 2017	The governor of Jakarta signs decree No 1438/2017 on the location for the Jakarta-Bandung HSR in the Jakarta area
7 September 2017	The governor of West Java signs decree No 593/2017 on the location for the Jakarta-Bandung HSR in West Java province
4 October 2017	Transport Ministry and PT KCIC sign addendum for the concession agreement signed in 16 March 2016

Source: authors' compilation from various media sources

SOE Minister Rini Soemarno has been a key person in advancing the Jakarta-Bandung HSRP and in ensuring that the project went to China.<sup>4</sup> The project caused intra-cabinet tensions between Soemarno and former Transport Minister Ignasius Jonan, which saw the

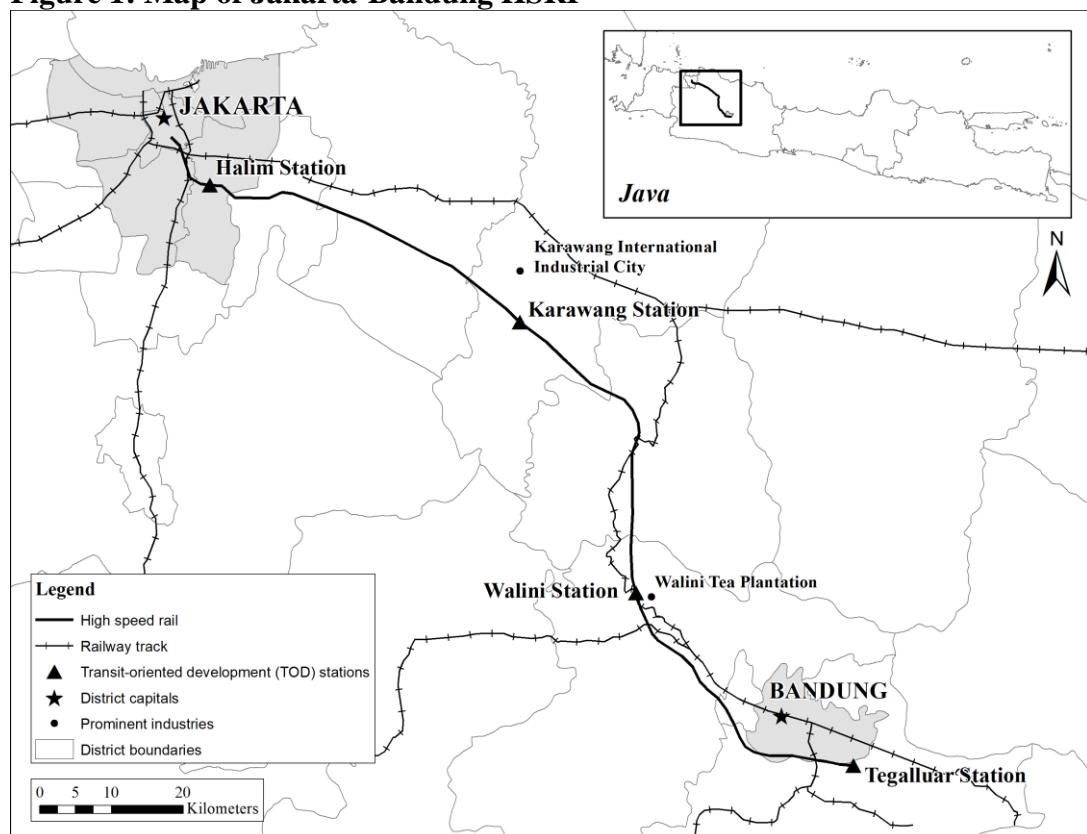
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<sup>4</sup> Op cit. Suryadinata (2017)

latter being eventually removed from his position, ostensibly to smoothen the issuance of permits for the project.

Soemarno also faced criticism in Parliament (DPR) that she has intruded on the authority of the Transport Minister.<sup>5</sup> It was Jokowi who had personally assigned Soemarno to lead the implementation process. Later, Soemarno came into conflict with Public Works and Housing Minister Basuki Hadimuljono on the issue of safety along the railway route, which will connect four cities between Jakarta and Bandung, namely Halim, Karawang, Walini and Tegalluar (see Figure 1).<sup>6</sup> These areas are prone to landslides and quakes, and the project includes the building of long bridges and tunnels. Soemarno was adamant that the Chinese project developers have sufficient technical experience in dealing with these conditions.<sup>7</sup>

**Figure 1: Map of Jakarta-Bandung HSRP**



Source: ISEAS-GIS team

<sup>5</sup> Yoga Sukmana, ‘Proyek Kereta Cepat, Menteri Perhubungan Jangan hanya Jadi Tukang Stempel’, Kompas 27 January 2016. <http://bisniskeuangan.kompas.com/read/2016/01/27/113800326/Proyek.Kereta.Cepat.Menteri.Perhubungan.Jangan.hanya.Jadi.Tukang.Stempel>. Accessed 28 November 2017.

<sup>6</sup> The Jakarta Post, ‘Ministers differ in Jakarta-Bandung high-speed railway project’, 25 April 2017. <http://www.thejakartapost.com/news/2017/04/25/ministers-differ-in-jakarta-bandung-high-speed-railway-project.html>. Accessed 28 November 2017.

<sup>7</sup> Kontan, ‘Menteri BUMN: Jangan ragukan China di kereta cepat’, 25 April 2017. <http://nasional.kontan.co.id/news/menteri-bumn-jangan-ragukan-china-di-kereta-cepat>. Accessed 28 November 2017.

Coordinating Minister for Maritime Affairs and close Jokowi confidant Luhut Binsar Pandjaitan has also been important in pushing the project forward.<sup>8</sup> As the coordinating Minister for Maritime affairs, Pandjaitan oversees the transport ministry.

## LITTLE PROGRESS AND IMMENSE CHALLENGES

The progress of Jakarta-Bandung HSRP has been very slow due mainly to lengthy land-clearance issues. To date, the project has not seen significant progress despite the issuance of the construction permit in July 2016 (see Table 1). The construction was to begin in August 2016, but according to project developer, PT Kereta Cepat Indonesia China (KCIC), as of September 2017, only around 55 per cent of the total 600-hectare land needed for the 142-kilometre railway project has been cleared.<sup>9</sup>

The HSRP will affect 6,800 plots of land across eight regencies and cities, 29 districts and 95 villages in West Java<sup>10</sup>. Those plots are owned by 5,580 entities, including individuals, SOEs, and private companies. PT KCIC has assigned PT Pilar Sinergi BUMN Indonesia (PSBI) to handle land acquisition, but the process has been slow. Indeed, an official from the PRC Embassy in Jakarta who asked to remain anonymous<sup>11</sup> revealed in an interview that the land issue is the key bottleneck for loan disbursement from the China Development Bank (CDB).<sup>12</sup>

CDB initially took the stand that 100 per cent of the land must be legally procured before the loan agreement could be signed. Moreover, it also required the project to be included in the national spatial plan (*Rencana Tata Ruang Wilayah* or RTRW) and therefore sought for the RTRW's Government Regulation No 26/2008 to specify the area designated for the railway route. This became a legal obstacle for land procurement, as local authorities could not act outside of the conditions stated in the RTRW.<sup>13</sup> In April 2017, Jokowi finally signed No 13/2017, a new government regulation that revises No 26/2008 to include the project.

In May 2017, when Jokowi attended the Belt and Road Initiative (BRI) Summit in Beijing, PT KCIC and CDB signed a loan commitment amounting to 75 per cent of the US\$ 6 billion total project cost. CDB compromised on its earlier refusal to proceed before all the required

<sup>8</sup> Detik finance, 'Luhut: Program Presiden Jalan, Tak Ada Potensi Mangkrak', 28 October 2017. [https://finance.detik.com/infrastruktur/d-3704098/luhut-program-presiden-jalan-tak-ada-potensi-mangkrak?\\_ga=2.185099497.1107754644.1509779266-146194630.1495580929](https://finance.detik.com/infrastruktur/d-3704098/luhut-program-presiden-jalan-tak-ada-potensi-mangkrak?_ga=2.185099497.1107754644.1509779266-146194630.1495580929). Accessed 28 November 2017.

<sup>9</sup> Ardan Adhi Chandra, op cit.

<sup>10</sup> Arya Dipa, 'Incomplete land data collection hampers Jakarta-Bandung rail project', The Jakarta Post 14 August 2017. <http://www.thejakartapost.com/news/2017/08/14/incomplete-land-data-collection-hampers-jakarta-bandung-rail-project.html>. Accessed 8 November 2017

<sup>11</sup> Interview with staff from PRC Embassy in Jakarta, 25 October 2017.

<sup>12</sup> The Jakarta Post, 'Not yet funds for high speed train project: Minister', 30 May 2017.

<http://www.thejakartapost.com/news/2017/05/30/not-yet-funds-for-high-speed-train-project-minister.html>. Accessed 8 November 2017

<sup>13</sup> Kompas, 'Kereta Cepat Mandek', 22 March 2017.

<https://kompas.id/baca/nusantara/2017/03/22/kereta-cepat-mandek/>

land had been fully cleared.<sup>14</sup> PT KCIC had until December 2017 to secure all the land needed for the project.<sup>15</sup>

The government had initially awarded PT KCIC a fixed concession period of 50 years starting from 31 May 2019.<sup>16</sup> However, delays in project construction mean that both parties will need to consider moving the project completion date to 2020 (see Table 2)<sup>17</sup>.

**Table 2: Comparison between the original and revised plan of Jakarta-Bandung HSRP**

	Length	Number of stations	Speed	Start of Construction/Operational Year	Shareholding	Proposed expenditure
Original	150.5 km	8	350-380 Km/h	2016-2018 (construction)/Q3.2019 (operation)	40% owned by China; 60% by Indonesia	US\$5.5 billion
Revised	142.3 km	4 (Halim, Karawang, Walini, Tegalluar)	250 Km/h	2017-2019 (construction)/H1.2020 (operation)	90% owned By China; 10% by Indonesia (proposed)	US\$6 billion

Source: *Tempo*, 18 October 2015, p.17; *Tempo*, 14 February 2016, p. 81, and [http://www.bbc.com/indonesia/berita\\_indonesia/2016/01/160104\\_indonesiakereta\\_cepat\\_rapat](http://www.bbc.com/indonesia/berita_indonesia/2016/01/160104_indonesiakereta_cepat_rapat) (Accessed 8 November 2017)

By July 2017, Jokowi was worried about increased financial risks around HSRP.<sup>18</sup> He is offering China a majority stake in the project – possibly up to 90 from 40 per cent – in order to lessen the burden on Indonesia's SOEs, and has asked Ministers Pandjaitan and Soemarno to evaluate the viability of reducing Indonesia's shareholding composition to just 10 per cent. The current shareholding arrangement has four Indonesian SOEs holding 60 per cent of the HSRP consortium: PT Kereta Api Indonesia (KAI), PT Wijaya Karya (WIKA), PT Perkebunan Nusantara VIII and PT Jasa Marga. All of these SOEs have huge financing needs, tasked as they also are with building other infrastructure projects, including toll roads, ports and dams. Due to the need to build a major tunnel through “a high-ground area”,

<sup>14</sup> <https://kompas.id/baca/ekonomi/2017/05/15/perjanjian-pinjaman-dari-china-untuk-kereta-cepat-akhirnya-ditandatangani/>. Accessed 8 November 2017.

<sup>15</sup> Farida Susanty, ‘High-speed railway contract signed amid financing issues’, The Jakarta Post, 5 April 2017. <http://www.thejakartapost.com/news/2017/04/05/high-speed-railway-contract-signed-amid-financing-issues.html>. Accessed 8 November 2017.

<sup>16</sup> Ibid.

<sup>17</sup> Ardan Adhi Chandra, ‘Pembebasan Lahan Proyek Kereta Cepat JKT-BDG Capai 54,5%’, Detik finance, 27 September 2017. <https://finance.detik.com/berita-ekonomi-bisnis/3659663/pembebasan-lahan-proyek-kereta-cepat-jkt-bdg-capai-545>. Accessed 8 November 2017.

<sup>18</sup> Farida Susanty and Fedina S. Sundaryani, ‘President begins to see risks in China’s high-speed train’, The Jakarta Post, 27 July 2017. <http://www.thejakartapost.com/news/2017/04/15/indonesia-to-see-high-speed-rail-costs-swell-amid-changes.html>. Accessed 28 November 2017.

elevate parts of the tracks and acquire more land from private parties, the HSRP project cost is expected to increase from its initial estimate of US\$5.5 billion to US\$6 billion.<sup>19</sup>

Jokowi's administration is clearly facing both financial and time pressure to get the Jakarta-Bandung HSRP running. It requires China's loan in order to expedite project construction, but the new loan disbursement agreement is conditional on land acquisition and various legal frameworks being completed first. Cautious as China already is about putting money into the infrastructure project too early, it may not be as interested in greater ownership of the project as it is in lending money and undertaking the construction.

As we have learned from an interview with the Coordinating Body for Investments (BKPM) along the rail project, there is a list of other projects that has been offered to China under the Belt and Road Initiative (BRI)<sup>20</sup>. Given the difficulties of the Jakarta-Bandung HSRP, it is likely that China will be more careful from now on in evaluating project proposals from Indonesia.

Domestically, public trust in the benefits of foreign investments, especially from China, is low. For instance, following Jokowi's invitation for China to invest in Indonesia, critics accused him of wanting to "sell" the country to China.<sup>21</sup> A significant portion of the public remains sceptical of the advantage of closer economic relations with China.<sup>22</sup> This can be explained by two things: (i) a fear of competition and of Indonesia being put in an inferior position vis-à-vis China, and (ii) the history of ideological suspicions towards China.

However, foreign investments are desperately needed to promote economic growth and create jobs, and the government does need to better communicate to the general public the importance of this and of the benefits of closer economic relations with China.

## CONCLUSION

The Jakarta-Bandung HSRP will put Jokowi's ability to accelerate infrastructure development in Indonesia to the test. Despite the many controversies that surround the project, the president seems to strongly believe that it will boost the economy along the railway route, especially through transit-oriented development (TOD).<sup>23</sup> The project is

<sup>19</sup> <http://www.straitstimes.com/asia/se-asia/jakarta-may-offer-china-larger-stake-in-high-speed-rail-project>. Accessed 28 November 2017.

<sup>20</sup> Interview with BKPM official in Jakarta, 27 October 2017.

<sup>21</sup> Sabrina Asril, 'Dituding Jual Negara ke Pihak Asing, Ini Jawaban Jokowi', Kompas 18 November 2014.

<http://nasional.kompas.com/read/2014/11/18/12325331/Dituding.Jual.Negara.ke.Pihak.Asing.Ini.Jawaban.Jokowi>. Accessed 28 November 2017

<sup>22</sup> Diego Fossati, Hui Yew-Foong and Siwage Dharma Negara, "The Indonesian National Survey Project: Economy, Society and Politics", Trends in Southeast Asia, No. 10, 2017, ISEAS Publishing. pp. 8-9.

<sup>23</sup> TOD is an urban planning term related to the development of an area that includes a mixture of housing, office, retail and other amenities integrated into a nearby neighbourhood connected with quality public transportation.

expected to grow the tourism, manufacturing, logistics and property sectors and lay the foundation of a Jakarta-Bandung megapolitan area.<sup>24</sup>

Jokowi has high expectations from the success of the HSRP, evident in its designation as a national strategic project. However, while there has been some progress on the ground, many challenges lie ahead, including for Jokowi personally. The president needs to deliver the high-profile project on time. However, there are many regulations that he cannot break and will need to circumvent. Moreover, in the short-term, the trickle-down effects of the project will not be obvious to the public. Hence the project may not benefit Jokowi's electability in the upcoming 2019 election. He will need to weigh more clearly the political benefits and costs of this project.

A recent survey by Indonesian polling agency Populi Center reveals that while public satisfaction towards Jokowi's development programmes currently stands at about 60 per cent, his re-election chances are only at around 45 per cent.<sup>25</sup> Should the public become more dissatisfied with his ability to improve Indonesia's economic condition, at the same time as the Jakarta-Bandung HSRP continues to involve land conflicts, Jokowi's political opponents will have effective weapons to pit against him.

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<sup>24</sup> Tempo (2017) cited a study by Bappenas on urbanization trends has projected that Jakarta-Bandung population will reach 80 million by 2045.

<sup>25</sup> <https://www.cnnindonesia.com/nasional/20171102133908-20-253004/survei-populi-62-persen-responden-puas-pembangunan-jokowi/>.  
<https://www.cnnindonesia.com/nasional/20171023083226-32-250227/elektabilitas-tinggi-jokowi-tak-jamin-amankan-pilpres-2019/>. Accessed 28 November 2017.