Indonesia: A snapshot

In the World Economic Forum's *Global Competitiveness Report* for 2012-13, Indonesia ranks 92nd out of 144 countries for the quality of its overall infrastructure.[1] The report identifies inadequate infrastructure as one of the three "most problematic factors for doing business" in Indonesia, surpassed only by the twin scourges of bureaucracy and corruption. This infrastructure deficit is evident everywhere from roads to ports to electricity. Yet there is also a perception that Indonesia's weak infrastructure makes it a land of abundant opportunity for investors: indeed, Morgan Stanley has hailed the country's infrastructure sector as a "A $250 billion Opportunity."[2]

This bullish argument is based largely on expectations that infrastructure spending is poised to surge. Following the 1998 Asian financial crisis, spending on infrastructure plummeted from a peak of 9.2% of GDP in 1995 to about 2.5% in 2000. As a result of this underinvestment, Indonesia's infrastructure seriously deteriorated. By 2009, infrastructure spending had recovered somewhat to 3.9% of GDP, and Morgan Stanley has predicted that it may jump to between 5.9% and 7% of GDP in 2015. The government itself has set a more modest — but still ambitious — target of spending 5% of GDP on infrastructure from 2009 to 2014. Much of this money is expected to go to railways, airports, ports, electricity and roads. Improved monetary conditions, a rise in foreign direct investment, and a wave of regulatory reforms — including an important land acquisition law — should also help.

In the meantime, road congestion remains a significant problem, not least in the traffic-clogged capital city Jakarta. The country's electricity supply has also failed to keep pace with soaring demand, which has resulted in frequent power outages. The government set about addressing these economic challenges by launching the 2011-2025 Master Plan for the Acceleration and Expansion of Indonesia Economic Development.[3] This plan will focus in large part on upgrading the nation's roads, railways, ports and airports. Part of the goal is also to build industrial infrastructure in six "Economic Corridors", including key areas of growth such as Sumatra, Papua and Kalimantan.

Private investors eager to profit from Indonesia's impressive boom in infrastructure development must still contend with such hazards as weak contract enforceability, bureacratic delays, and corruption. In Transparency International's *Corruption Perceptions Index for 2011*, Indonesia ranked 100th out of 183 countries. Still, there is good reason for optimism — not least, the sheer size of the market in this resource-rich nation of 244 million people.

1 See "The Global Competitiveness Report 2012-2013"; http://www3.weforum.org/docs/WEF_GlobalCompetitiveness-Report_2012-13.pdf

2 See Morgan Stanley report "Indonesia Infrastructure: A US$250bn Opportunity"; http://www.morganstanley.com/views/gef/archive/2011/20110511-Wed.html#anchorfc3b7897-7bce-11e0-b72c-c51383242534

3 See "Masterplan for the Acceleration and Expansion of Indonesia Economic Development, 2011-2025"; http://www.depkeu.go.id/ind/others/bakohumas/bakohumaskemenko/PDFCompleteToPrint(24Mei).pdf

Major projects

Electricity: Indonesia has been hit by regular electricity blackouts in recent years, and its energy supply shortfall continues to threaten economic growth. To address this, the government is looking to boost its thermal energy resources, relying on the addition of many coal-based and gas-fueled power projects. According to the *Wall Street Journal*, Indonesia's state-owned power company PT Perusahaan Listrik Negara also has plans to create a 700-km electricity network between the islands of Sumatra and Java at a cost of $20 billion — part of a much broader program to improve Indonesia's low rates of electrification.

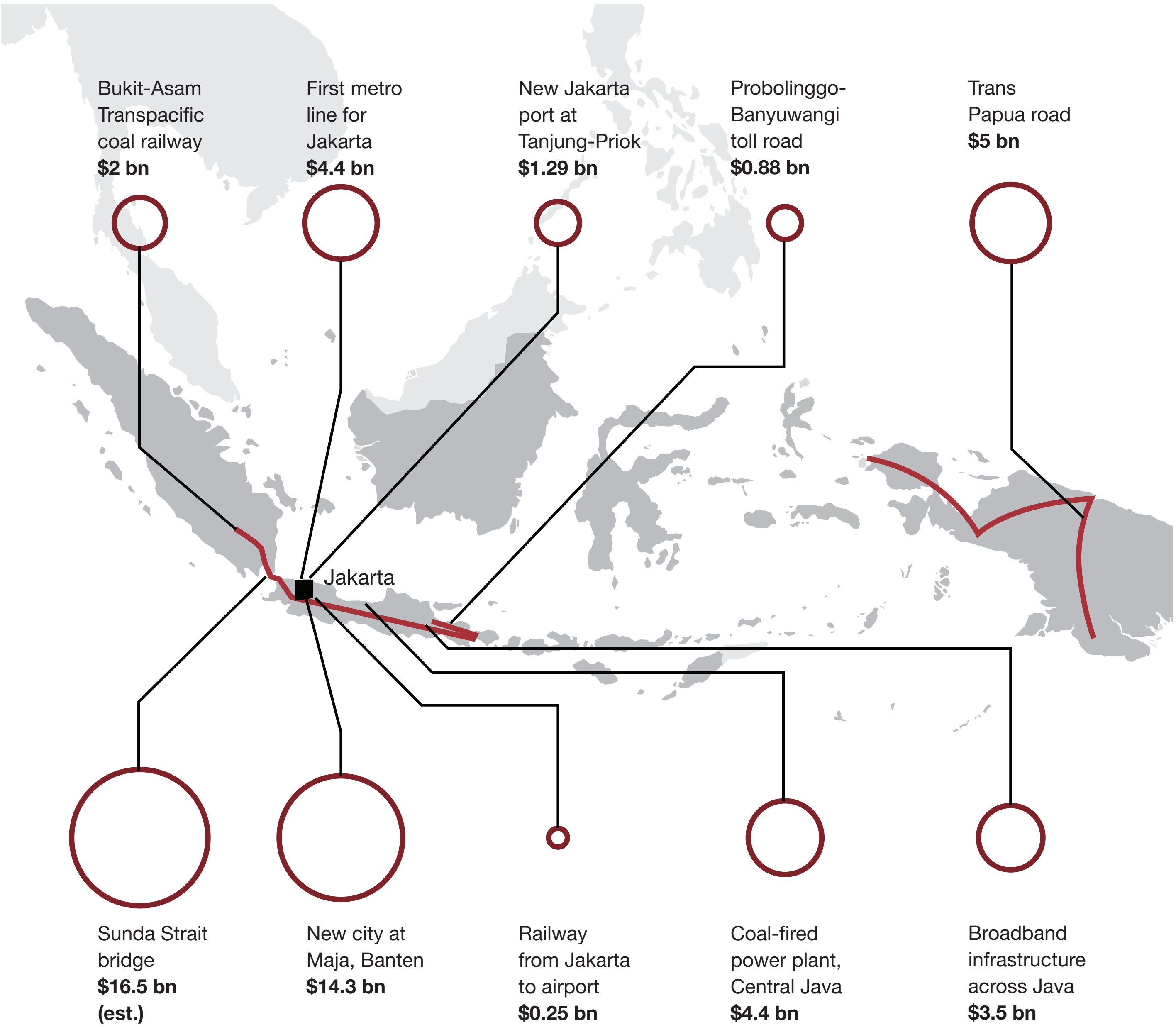
Renewable Energy: Hydropower accounted for an estimated 14.6% of Indonesia's total generation in 2011. Previous hydro projects have been small, but the *Jakarta Post* recently reported an announcement that 96 additional locations have been identified that are suitable for new hydroelectric power plants. The opportunities in Indonesia's hydropower sector are expected to attract significant interest from both domestic and foreign private enterprises.

Transport: Indonesia's outmoded transport system is so clogged up that President Susilo Bambang Yudhoyono announced plans for about $195 billion in spending to overhaul infrastructure such as roads, bridges, ports and railways. The National Railway Master Plan includes an array of potential projects to complete by 2030, including a Bali tourism train, the Jabodetabek commuter train, and a rail link to Jakarta's Soekarno Hatta airport. The government's 2012 Summary of Public Private Partnerships calls specifically for significant investment in toll roads.

By the numbers

- Indonesia's 2011-2025 development plan seeks **$440 billion** of investment in highways, power plants, roads and other infrastructure.
- The government aims to invest about **5%** of GDP in infrastructure. That's up from a low of about **2.5%** in 2000, but still far below the 1995 peak of **9.2%.**
- The National Development Planning Agency estimated that **$121.65 billion** would be needed to fund **87** infrastructure projects from 2010-14. The government said it could cover only **30%** of this sum, indicating that a major influx of private investors will be required for the nation to meet its goals.
- In November 2011, a **710-meter** suspension bridge in East Kalimantan province collapsed when a steel support cable snapped, plunging traffic into the Mahakam river. At least **22** people died, **39** were injured and **14** were declared missing — highlighting concerns about the uneven condition of Indonesia's infrastructure. The bridge was only **10** years old.
- About **15 million** Indonesian households have no access to electricity, according to Morgan Stanley. In outer islands such as Nusa Tenggara and Papua, as little as **20-30%** of the population has access to electricity.

Indonesia's top 10 planned infrastructure projects



Sources: Bukit Asam, Indonesian government, Reuters

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