



CONSTRUCTION IN INDONESIA: INFRASTRUCTURE

Introduction

As one of the largest and fastest growing economies in South East Asia, Indonesia has become the land of opportunity for the construction sector.

The country has been widely predicted to become a global hotspot for construction in the coming years and is already attracting investment from organisations around the world, including Asian businesses such as Mitsubishi and Itochu Corp, as well as US giants like General Electric.

Behind much of this growth is a fundamental political shift which has led to the development of transformative policies and initiatives. One of the most eye-catching of these being the National Affordable Housing Program which was launched in April 2015. An ambitious programme aiming to address the country's need for 800,000 new housing units each year.

However, after years of underinvestment, the area which is set to receive the most investment in the coming years is Indonesia's infrastructure. This will provide significant opportunities for both construction and engineering firms as well as construction professionals.

Infrastructure opportunity

During the Asian financial crisis of the late 1990s, investment in Indonesian infrastructure fell dramatically from 7 per cent of GDP to just between 3 to 4 per cent. Meanwhile, the country's population continued to grow and, like many South East Asian countries, moved from rural to urban areas.

As a consequence, Indonesia's existing infrastructure has been put under immense pressure which, in turn, has hampered the development of the country's economy. According to Japanese financial services group Nomura, the need for infrastructure spending has become increasingly urgent for the country. The group believes that falling commodity prices and the weakened global economy means that Indonesia's capacity to generate internal growth is critical to its future.

Political impetus

In 2014, the current president of Indonesia, Joko Widodo, took power with a pledge to tackle the country's infrastructure challenges head on and boost economic growth with a spending spree on ports, roads and railways. As the first president to be elected from outside the traditional governing elite, Mr Widodo has faced strong resistance to his plans. However, this has not affected his belief that the world should see Indonesia as a 'great nation that pays attention to every inch of its land', and that building the country's infrastructure is, 'something that we absolutely must do' to support economic growth and prosperity.

Progress was initially slow with many commentators quick to highlight the daunting task Indonesia faced. HSBC, for example, estimated the country required infrastructure spending of an eye-watering US\$1,162bn between now and 2030 to realise Mr Widodo's ambitions.

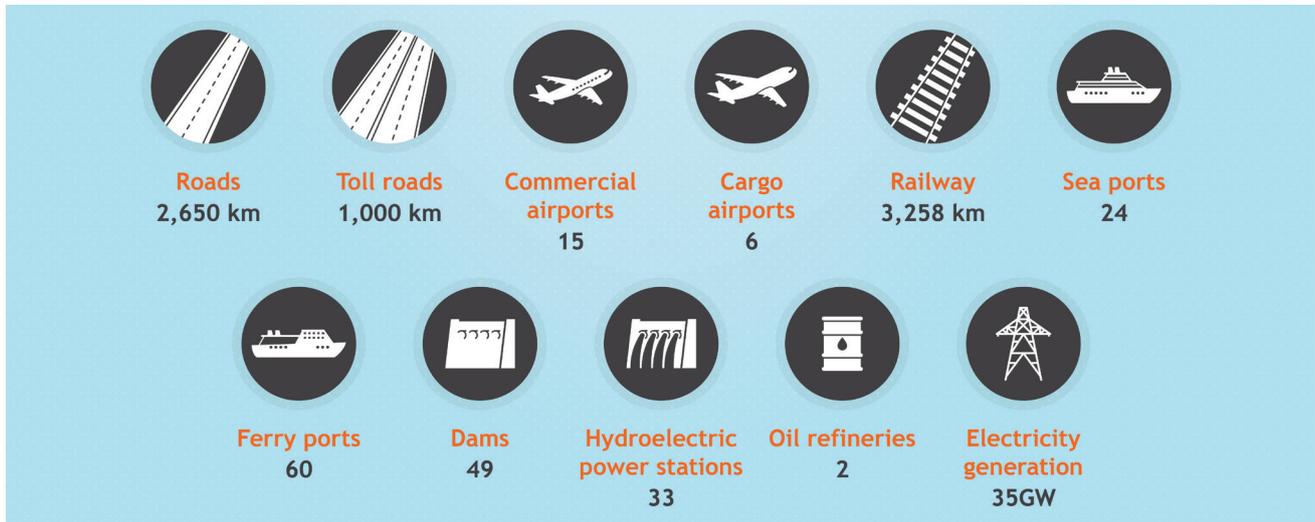
The country has also faced more fundamental problems. Unclear and disjointed land ownership issues have made it particularly difficult to plan new infrastructure let alone build it – a problem compounded by the reluctance of villagers to sell their land.

Building momentum

To address these issues, the government has also announced the Land Acquisition Act to speed up the process of developing projects by allowing for the revocation of land rights to serve the public interest. As a result major infrastructure projects are now underway.

Infrastructure project plan

The BKPM, the Indonesian government’s investment agency, has outlined the following ambitious plans:



The timings for the completion of the Infrastructure Project Plan are unclear but progress is being made despite pressure on budgets. Even with a reduced allocation, Bloomberg reported that the Indonesian Public Works Ministry spent a larger proportion of its budget in the first half of 2016 compared with 2015.

Major projects underway

After many lengthy delays, progress is now being made, particularly in power generation and transport. Major projects are being supported by increasing amounts of foreign investment which is creating significant opportunities for construction and engineering firms. Key projects include:

- **Power generation – Batang Power Plant**

Indonesia’s electricity supply is a prime example of the need for infrastructure investment: the country is plagued by power failures and blackouts. According to the International Energy Agency, Indonesia’s current installed capacity is 47.3 GW. Mr Widodo has promised a further 35 GW by 2019. So far, almost a quarter of this is completed or under construction.

For example, after initial delays South East Asia’s biggest coal fired plant has secured financial backing from the Japan Bank for International Cooperation. When it comes online in early 2020, the Batang power plant is expected to generate 2,000 MW.

Global energy businesses are monitoring the country closely. As Société Générale’s Asia Pacific Head of Project Finance Danial Mallo puts it, ‘Indonesia is on the radar screen of every power investor globally’.

- **Rail – High-speed Rail Link**

In August 2016 the Indonesian government issued the construction permit which signalled the start of construction of the country’s first high-speed railway. The 142 kilometre line will link the capital city Jakarta to the city of Bandung in West Java. The US\$5.1bn mega project, which is expected to complete in 2019, will be delivered by Kereta Cepat Indonesia China, a Chinese-Indonesian consortium.

- **Road – Trans-Sumatra Toll Road**

The Trans-Sumatra toll road is one of Indonesia’s largest infrastructure projects with an estimated cost of US\$25bn. The road will connect Banda Aceh in the northern tip of Sumatra – Indonesia’s second largest island – to Lampung on the southern tip. In total, the road will cover more than 2,800 kilometres consisting of 24 sections that stretch across ten provinces. Originally the road was expected to be completed by 2019. However, given the scale and costs involved, as well as land acquisition issues in Sumatra, the road is now expected to be delivered in stages.

Conclusion

After years of delays and false starts, Indonesia’s infrastructure revolution is finally starting to take shape. Change is being driven by a political imperative and underpinned by government spending and international investment. The country’s rising population, growing middle-class and burgeoning enterprises are clamouring for improvements and planned projects are starting to become a reality.

In the next 15 years, infrastructure improvements are expected to help Indonesia become the seventh largest economy in the world, according to research by ITE. The country will offer a market opportunity of US\$1.8 trillion and create the need for 113 million skilled workers. The opportunities for construction and engineering companies are considerable and we are already seeing a growing demand for experienced contractors.

Future opportunities in indonesia

Indonesia offers considerable opportunities for construction over the next 20 years. By 2030, the country’s economy is forecast to:

- Become the 7th largest economy in the world
- Offer a market opportunity of US\$1.8 trillion
- Employ 113 million skilled workers

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