On 13 December 2018 a high-level seminar took place on the basis of Indonesia’s vision to become a Global Maritime Fulcrum, hosted by the Institution of Engineers Indonesia (PII) and the Coordinating Ministry of Maritime Affairs. The seminar was attended by over 100 participants ranging from port/maritime experts, high-ranking Government officials and foreign dignitaries including the Sultanate of Oman.

Among the speakers were Minister of Transport H.E. Budi Karya Sumadi; on behalf of Minister of Public Works H.E. Basuki Hadimuljono the Director General of Human Settlements of the Ministry of Public Works and Housing Dr. Danis Sumadi Iga; on behalf of Coordinating Minister of Maritime Affairs Luhut B. Pandjaitan his Deputy Coordinating Minister of Maritime Affairs for Infrastructure Dr. Ridwan Djamaruddin; on behalf of Finance Minister Sri Mulyani Indrawati her Expert Staff for State Revenue Policy of the Ministry of Finance Dr. Robert Leonard Marbun; World Bank Washington/Singapore Senior Public Private Partnerships Specialist Prof. Jeffrey John Delmon; ASYAD CEO Eng. Abdulrahman Al Hatmi; Chairman of the Indonesian Port Experts Association (HAPI) Ir. Wahyono Bimarso; President Director of PT Pelabuhan Rotterdam Ir. Willem Dedden; Program Director of the Committee for Acceleration of Priority Infrastructure Delivery (KPPiP) Mr. Rainier Haryanto; World Bank Private Sector Expert Mr. Daniel Alexander Van Tuijll; and Secretary General of the Indonesian Academy of Sciences (AIPI) Dr. Chairil Abdini.

Surprisingly, most – if not all speakers – prioritized that Port and Infrastructure Policy must target economic and employment benefits for Indonesians first and foremost. This should be achieved through a multi-stakeholder approach that – through forcefully improving education and training secures poverty alleviation – brings in the required foreign currency earnings, includes industrial innovation, technology development and energy facilities, particularly through industrial estates near ports. Referring to examples of maladministration, experts in the audience called on Indonesia’s policy- and decision-making elites to change the paradigm and ensure that Indonesia’s future is built by Indonesians. A remarkable unanimity emerged that the President’s Global Maritime Fulcrum may not be realized unless a paradigm shift is achieved in Indonesia’s maritime sector in general and its port sector in particular. Several presentations demonstrated the consensus among the world’s most renowned institutions such as Lloyd’s Register that global trading and transporting patterns will shift Eastward and practically cover Indonesia’s realm. Therefore, internationally competitive ports must be built and managed to ensure that Indonesia’s current backlog vis-à-vis Malaysia, Thailand and Vietnam is turned into an advantage. According to several speakers this requires one strategy, one institution and one top management. A study released at the Seminar proposes that the current Pelindos, which do not coordinate their work and which are considered incapable to fund and manage multibillion port facilities, are combined into one reinforced organization. This is how Indonesia can fulfil the promise to become the world’s fourth largest economy by 2050.
**Summary**

Dr. Heru Dewanto, Chairman of PII, stated that Indonesia must optimize the unique potential of its maritime and geostrategic location, calling on the Government to develop a comprehensive and holistically integrated plan, which will allow Indonesia to realize itself as a Global Maritime Fulcrum and become the world’s 4th largest economy by 2050. He said, “We need to build world-class competitive deep-sea ports, connect them to each and every part of our island nation and ensure that we can realize the country’s strategic destiny”.

H.E. Budi Karya Sumadi, Minister of Transport, highlighted the achievements of the Ministry of Transport in implementing the Global Maritime Fulcrum. The presence of the Sea Toll Program has succeeded in reducing the logistics cost of basic goods by up to 40 percent in eastern Indonesia. He also highlighted the strategic ports that are being completed, including hub ports such as Kuala Tanjung, which will compete face to face with Singapore and Malaysia; and Patimban which will directly export goods from the automobile industry near the port. He invited investors from all countries to partake in its operations, stating “We invite friendly countries, and we are ready to help and provide special services for those of you who intend to come here. President Joko Widodo has emphasized that Indonesia wants to compete, and just within 100 years of independence, Indonesia wants to become number one.”

Director General of Human Settlements of the Ministry of Public Works and Housing Dr. Danis Sumadilaga stressed that the development of infrastructure as a main priority of the Government is a “strategic choice” on the basis of increasing Indonesia’s competitiveness and fighting social inequality. He highlighted the ministry’s Strategic Regional Development (WPS) plan. Through the WPS approach, various targets for the development of the public works and housing sector are prepared to ensure water and food security, strengthen inter-regional connectivity as an increase in competitiveness, improve the quality of residential environments, especially cities as "engine of economic growth", and build from the periphery to reduce disparity between regions.

Dr. Ridwan Djamaluddin, Deputy Coordinating Minister of Maritime Affairs for Infrastructure, highlighted the Coordinating Ministry of Maritime Affairs’ role in realizing the Global Maritime Fulcrum, centred around three key maritime issues: sovereignty, resources, infrastructure, and human capital. He emphasized that Indonesia cannot continue “business as usual” if it wanted to achieve an adequate economy fitting of its 260 million population. Industries and estates go hand-in-hand with port development, otherwise they will not be successful. He concluded that the next focus should be prioritized on reindustrialization and human capital development.

Dr. Robert Leonard Marbun, Assistant Minister for State Revenue Policy of the Ministry of Finance, addressed the achievements, progress, and bottlenecks the Ministry of Finance has experienced in supporting the Global Maritime Fulcrum. He stressed that ports are not just for profit, as he believes it is a public good that creates employment. In order to achieve profit, there must first be good operations in the port. He stated that the Ministry of Finance is “optimistic” that Indonesia is making progress and is on the right track, even if current metrics and indicators leave space for criticism. The Ministry of Finance has introduced infrastructure financing and public private partnership schemes to attract foreign investments, as well as improve port customs and permit procedures. Lastly, he reported that taxation in Indonesia is still low, at about 12.2 percent of GDP.

World Bank Senior Public Private Partnerships Specialist Prof. Jeffrey John Delmon, one of the main authors of the recent World Bank Infrastructure Sector Assessment Program Report commissioned by
Minister of Finance H.E. Sri Mulyani, began by stating that “The port sector in the maritime sector is extremely important and is a big opportunity for leveraging not just economic development but human development and human capital development to Indonesia”. Responding to previous speakers, he highlighted that in order for Indonesia to maintain its high economic growth and massive infrastructure needs, it must leverage the private sector not just in the port itself, but the hinterland connections, industries, and logistics; not just state-owned enterprises. He also emphasized the requirement for attracting private investors, stating that private sector and cost of private finance is risk-based. The higher the degree of difficulty, the higher the degree of risk. Therefore, he continued, it is essential that the Government steps in for the difficult projects while leaving the easy ones to the private sector. With regards to SOEs, he said they must be re-incentivized in order to not crowd out private investments. Currently, the private sector “often feels constrained by SOEs, like they’re competitors. We need to change that so that SOEs are actually drivers of private investment”.

According to HAPI Chairman Ir. Wahyono Bimarso “global maritime traffic will shift from West to East with Indonesia in the middle”. However, “Indonesia is not yet able to leverage its geostrategic position, because its ports are inefficient.” This, he assessed, was partly due to the fact that “the current Pelindo system is a remnant of Indonesia’s colonial past”. Furthermore, he expressed his concerns that most urgently, there is a lack of a unified strategy, institution and world-class management to implement the Global Maritime Fulcrum. This is among the reasons why there are still 30 million Indonesians living under the Societal Poverty Line while around 90 million people remain economically vulnerable. According to the World Bank’s 2018 Poverty Report Indonesia still has up to 40 percent malnourished children. Strong economic growth providing hundreds of thousands of jobs can be caused by proper port and infra management. He called on the Government to now finally fully implement Law No. 17 of 2008; if this is combined with the integration of the four Pelindos Indonesia is ready to put the international best practice landlord model to use.

The CEO of the Omani SOE ASYAD, Mr. Abdulrahman Al Hatmi, explained that his company two years ago was established to combine all three major Omani ports and all infra and free trade zones. This has led to 50 bn USD in foreign investment. Port of Sohar is a partnership with the Port of Rotterdam. It drew 26 bn USD in foreign investment in its first stage and now prepares its second stage that will include a food hub. This may include cooperation with Indonesia. Today ASYAD manages the state assets in various sectors and integrates its industrial zones to maximize port development. “Omanis have successfully defined the advantage of its strategic location and conducive business environment to establish the Ports of Sohar, Salalah, and Duqm”, he said. According to Mr Abdulrahman, establishing one holding company for ports can prevent inter-port competition and strengthen the capacity of each port to serve as an international hub port. On the basis of Oman’s experience he concludes that one strategy is needed to create a profitable and commercially feasible port policy to boost the economic growth of a country. Through ports, foreign currency can be earned and jobs can be created. Following the major foreign investments into Oman he confirmed Oman’s and ASYAD’s intention to invest in Indonesia. He looked forward to engaging in partnerships with his Indonesian counterparts.

President Director of PT. Pelabuhan Rotterdam Eng. Willem Dedden provided his views on Indonesian port development, as well as on President Joko Widodo’s request to the Netherlands Government in developing a number of integrated industrial ports, Kuala Tanjung Port being one of them. Europe’s largest port considers that profit is not the main concern of ports, but ports should be profitable to maintain the investment programme and contribute to the economic growth; it is an important generator of social and economic value. The Dutch Government has invested in Port of Rotterdam so that its basic facilities could draw in rather massive private investment. Mr Dedden advises that an
integrated industrial port can bring Indonesia significant socio-economic benefits. The expected total cost for Kuala Tanjung infrastructure is 3.7 bn USD. 0.9 bn USD should be a Government investment enabling further infrastructure investments on commercial basis to the tune of 2.8 bn USD. From day one this will create employment and economic value: ultimately 90,000 jobs, 3 bn USD yearly contribution to Indonesia’s GDP and 23 bn USD investments by operating companies. Mr Dedden emphasized that if the enabling infrastructure is not provided by the Government – as Oman and The Netherlands did – the project will not be financially feasible. Port of Rotterdam has developed a masterplan for Kuala Tanjung with a lot of flexibilities so it can be realistically adapted in order to fit in with Indonesia’s strategic goals and market demands.

Dr. Chairil Abdini, Secretary General of the Indonesian Academy of Sciences (AIPI), approached the President’s Global Maritime Fulcrum plan from a geographic and trade perspective. He stated that Malacca Strait is the second busiest strait in the world with Singapore as the seaborne trade hub. He called for the Government to not repeat the same mistakes of Port of Sabang and Batam. What went wrong with Indonesia’s port and infrastructure stems from the Government’s concept of regional development, where it only focuses on the construction of physical infrastructure without taking into consideration the market aspect that facilitates trade activities. Hence, he explained that overcoming this issue requires a comprehensive evaluation of current development policies of free trade areas, and reconfiguration of current ports management and plans.

History of Indonesia’s Port Policy and Companies
Dr. Ridwan Djamaluddin outlined important milestones in developing Indonesia as a maritime state, beginning with Sumpah Palapa in 1336, Sumpah Pemuda in 1928, the Declaration of Independence in 1945, Deklarasi Djuanda in 1957, the First National Maritime Convention in 1963, Wawasan Nusantara in 1982, UNCLOS in 1982, Konvensi Benua Maritim in 1996, the Cabotage Principle in 2005, and finally President Joko Widodo’s NawaCita and Global Maritime Fulcrum in 2014. He further added that President Jokowi’s NawaCita set the foundation for all maritime policies within the last four years, especially within the Coordinating Ministry of Maritime Affairs. He surprised the audience with the promise that the Government will invest in industrial estates near ports.

Ir. Wahyono Bimarso highlighted that the models and consequences of Indonesia’s colonial past have insufficiently been replaced by an institution and a market structure that allows the fullest use of Indonesia’s strengths. It is time for change. He furthermore stressed that there is a lack of one strategy, one institution, and one globally recognized top management to implement, nation-wide benefitting of all, the Global Maritime Fulcrum as envisioned by the President.

Dr. Chairil Abdini showcased Sabang Freeport and the Batam Free Trade Zone as cautionary tales to avoid and not repeat. In the case of Sabang, the free port (then called Sabang Vrij Haven) was opened by the Netherlands in the year 1895; then, in 1963, through Presidential Regulation No. 10 of 1963 it was designated as a freeport. Although much money was poured, and further policies and regulations were enacted that made it a free trade area, free port, and KAPET (Integrated Economic Development Region), Sabang had not yet seen any development – but rather was used as a place of access for “a variety of imported goods such as used cars from Singapore”. In the case of Batam, it was essentially a subsidiary port of Singapore, as its export-import industry activities are only recorded figures over transfer price. This, in principle, means that all of the manufacturing industries’ components are imported from outside Batam, assembled there, and re-exported. So no Indonesian jobs are created.
Evaluating current port policy

Since launching President Joko Widodo’s vision for Indonesia as a Global Maritime Fulcrum in 2014, the Government has issued Presidential Regulation No. 16 of 2017 concerning the “Indonesian Sea Policy” (KKI). Dr. Heru Dewanto remarked that the Sea Policy, which consists of: a) National Indonesian Sea Policy Document, and b) Indonesian Sea Policy Action Plan is “not yet fully complete”. Ajib Anwar, member of the Indonesian Port Experts Association (HAPI) stated during the dialogue: “In my assessment, it seems that the Global Maritime Fulcrum is still a concept, and therefore open to interpretation for each individual. Indonesia requires a blueprint so that every stakeholder uses it. The blueprint should state goals, objectives, implementation, stages and can also be used for guidance in diplomacy to attract investment in implementing the concept.”

Implicitly agreeing to this criticism, Dr. Ridwan Djamaluddin said that “It’s clear that although the Malacca Strait is one of the nine world choke points, the marine traffic in Indonesia is still very low. Most of the ships only pass by or drop their cargo in Indonesia and bring their cargo from Indonesian ports.”

DG Dr. Danis Sumadilaga remarked that Indonesia is the largest archipelago with an area of more than 5 million km² with a population of 240 million inhabitants and the 4th largest in the world. Geographically Indonesia is also included in the Global Maritime Fulcrum. In this context, he stated that “of course ports are an interconnection node between sea and land modes”. The Ministry of Public Works and Housing supports and guarantees the implementation of high connectivity sea port activities, namely through building toll roads. The challenges of infrastructure for them is centred around four issues: disparity between western and eastern Indonesia, non-optimal use of resources, lack of national competitiveness due to limited infrastructure support and connectivity, and high urbanization where 53% of Indonesians live in cities.

The Ministry of Finance, said Dr. Robert Marbun, is optimistic that Indonesia is making progress and is on the right track. Indonesia has a huge task to close its infrastructure gap, which has been lacking partly due to the severe financial crisis in the 1990s. The requirement of financing the development of infrastructure has been limited by low tax collection as well as constitutional restriction on maximum deficit (3% of GDP) and public debt (60% of GDP). Because current metrics and indexes place the country below its neighbouring ASEAN countries in terms of competitiveness, logistics, and ease of business, Indonesia still has a lot of room for improvement and progress. Now, Indonesia is better in coordinating between ministries. Private involvement in infrastructure financing is seen as a possible solution, not only for its additionality but also it promises to deliver more efficient and reliable services. Hence, he continued, the Government needs to be more creative and innovative in order to attract private involvement in infrastructure financing. The Ministry of Finance has presented infrastructure financing instruments as contribution to the state budget on infrastructure development. This includes facility expenditures such as project development funds, viability gap funds, and availability payments. This, he stated, proved instrumental in delivering PPP projects.

Prof. Jeff Delmon assesses that Indonesia faces a huge challenge in terms of providing its infrastructure needs. The need for investment is not just in the ports itself, but both up and down the value chain. This means the hinterland connections, industrial estates, and logistics – which all require more investment. The Government, according to the World Bank, must leverage more of the private sector. By some studies, up to 68% of port and infrastructure investment can come from private investment. It is an enormous opportunity for the Government to leveraging more private capital into infrastructure through the port sector. In the same line, Ir. Wahyono Bimarso stated that the total requirement of new infrastructure investment in the Asia Pacific region of 1.7 trillion USD is only slightly higher than the
infrastructure deficit of Indonesia. So this is an enormous gap that current policies have created and that must somehow be bridged to prevent further Indonesian backlog.

Furthermore, Prof. Jeff Delmon stressed that although the Government has relied heavily on SOEs to deliver infrastructure, the challenge is that SOEs can only do so much. They don't have the balance sheets to finance as much as needs to be financed and do not have the capacity to deliver all of the infrastructure that Indonesia needs. He stressed that the “private sector often feels constrained by SOEs, like they’re competitors. We need to change that so that SOEs are actually drivers of private investment. So the SOEs are magnets or leverage points for bringing in private investment”.

The current reality is that the quality of infrastructure in Indonesia lags behind ASEAN middle-income countries and BRICS. Private investment has fallen as well, from 19% total investment from 2006-2010, to 9% from 2011-2015. Many ports in Indonesia have significant draft limitations. Currently none of the domestic terminals in Tanjung Priok and Tanjung Perak – the main ports of origin in the domestic trade – have the draft to support larger vessels cascading into the domestic trade. In 2012 the Academic Paper to Support the National Port Master Plan estimated that a total investment of over USD 47 billion would be required up to 2030 for port development, with about USD 17.3 billion required for container facilities alone. The RPJMN assumes 37% of all infrastructure investment is privately financed. Initial estimates suggest that about 68% of the total port investments could be provided by the private sector, under commercial port terminal concession agreements. The remaining 32 percent of the funding from the public sector would largely be for land provision, common port infrastructure such as channels, and non-commercial port terminals.

Dr. Chairil Abdini explained what went wrong with Sabang and Batam, where the Government’s regional development concept focuses on physical infrastructure and not market-based development, such as seaborne trade. This consequently caused the ports to be underutilized as there were no shipping companies. Batam became a “backyard” of Singapore and profits were sent there.

Mr. Rainier Haryanto explained that the KPPIP has completed a total of 36 strategic national projects from 2016 to September 2018 with a total investment value of USD 8.8 billion.

Comparisons, Competitiveness, and Resulting Scenarios
Dr. Ridwan Djamaluddin stated that Indonesia must learn from China and India, who have become new giants. National industries in India are now great. China’s GDP has become the global number 2. “The science and technology parks contribution to the GDP in China is 23.5%. China and India have proven that they can do it; Indonesia must also do it”, he said.

Dr. Robert Marbun provided key facts and figures with regards to Indonesia’s maritime sector. In the 2018 Logistics Performance Index (LPI), Indonesia is ranked 5th amongst ASEAN countries, with its customs, infrastructure, international shipments, and logistics quality and competence performance indices scoring lower than Singapore’s, Malaysia’s, and Thailand’s. Indonesia rose in ranking of ease of doing business in Indonesia, from 91 in 2017 to 72 in 2018, however it is still lower than Singapore, Malaysia, Thailand and Vietnam. He explained that in terms of port services-related elements, Indonesia still performs very low, not even placing top 100 out of 190 countries. In terms of competitiveness, Indonesia ranks 4th in ASEAN despite being Southeast Asia’s largest economy, behind Singapore (2nd), Malaysia (25th) and Thailand (38th).
In terms of infrastructure, Dr. Marbun stated that infrastructure provision in Indonesia still lags behind other countries. Infrastructure developments need to be accelerated to catch up the lags and boost economic growth. Despite the improvements, Indonesia’s infrastructure is not yet able to bring its best competitiveness compared to ASEAN. To improve its rank, Indonesia needs to improve its ports, roads, electricity and communication networks. **DG Danis Sumadilaga** provided similar statements: *infrastructure development as a main priority is a logical and strategic choice to increase the competitiveness of Indonesia and to combat social inequality.*

**Eng. Abdulrahman Al Hatmi** stated that Oman and Indonesia hold similar strategic positions. Oman is located on the primary global trade routes through the growing markets of GCC, Indian Sub-continent and African markets, and on the East-West trade route. It has geopolitical advantages with a stable political climate, a young and increasingly highly-skilled human force, distinguished international relations; cost optimization with duty-free exporting to the US market, and free zone incentives lowering operating cost; a conducive business environment; dedicated sector-specific zones addressing the infrastructure needs of large logistics companies across various industries; and connectivity through state-of-the-art airports, deep sea ports, incentivizing free zones and well-developed highways.

On this basis ASYAD has integrated its ports, providing national, regional and global clients with access to diverse industries, berthing and facilities for nearly all of today’s big ships and their associated cargos, as well as for the world’s largest container ships. It has also integrated and “intertwined” its free zones, offering a wide variety of industrial, trading, commercial and logistics opportunities to clients with both regional and global interests. This includes Sohar Port & Free Zone, a joint venture with Port of Rotterdam; Duqm Port, a joint venture with Port of Antwerp; Salalah Port, a joint venture with APM terminals; and Salalah Free Zone.

Also **Dr. Chairil Abdini** highlighted the potential of global cargo vessel routes. He explained that economic powerhouses are now concentrated in the northern hemisphere, therefore maritime fulcrum connects all developed economies in that region. It also connects US East Coast with Europe, Europe with Middle East and East Asia; East Asia with US West Coast. The Malacca Strait is the second busiest strait in the world with Singapore as the seaborne trade hub. It is the shortest route from Europe to East Asia via Middle East (Suez Canal). 72% of oil tankers, mostly Very Large Crude Carrier, pass through Malacca Strait and 28% of oil tankers, mostly Ultra Large Crude Carrier, pass through Lombok Strait and Malacca straits.

**Port of Singapore is located in the bottleneck of Malacca Strait.** **Port of Singapore** is the second largest container port in the world with a total volume of **33.7 million TEUs in 2017**. **Shanghai in 2017 recorded 40.2 million TEUs.** **Tanjung Priok, on the other hand, was ranked 27th in 2016 with 5.5 million TEUs.**

Singapore is the largest seaborne trade centre with 85% of global transhipment market, and according to the World Bank, it is the centre of global logistics hubs. He further explained that Singapore is also the largest refuelling centre supported by a sophisticated oil refinery with a total capacity of 1.3 million barrels per day, but uses only 450,000 barrels per day for domestic consumption, and therefore an excess of 850,000 barrels per day. This allows Singapore to sell its excess oil at a very competitive price, attracting ships to pass through Singapore.

Among 20 top container ports, there are two ports in Malacca Strait i.e Port Klang and Port of Tanjung Pelepas. In 2017 Port Klang reached 12.06 million TEUs, ranked 12th; and Port of Tanjung Pelepas reached 8.33 million TEUs and ranked 17th.
Solutions?
Prof. Jeff Delmon advised that Indonesia needs to upscale port facilities in order to address the size of traffic. However, he stated that “the challenge of private sector and cost of private finance, is risk-based. If you ask a private company to finance or to deliver a project, it is very complicated, very difficult, and very risky. They will charge you more than if you ask them to do something simple. But public money is not risk-based. Public money is the same price whether you use it on difficult projects or easy projects.” He explained that the easiest projects need to be delivered by private capital, while the riskier and more difficult projects should utilize public money. The public investment framework is not designed to systematically leverage private financing.

Furthermore, he stated that “there are a lot of different sector approaches, local government approaches, to delivering infrastructure; this needs to be programmed. When an investor comes to Indonesia, they need to know how Indonesia does business. They should know what are the rules, what is the way we do things, no matter what sector you go to, no matter what part of Indonesia, no matter which local government you work with – the rules are the same. So when an investor comes to Indonesia they can invest across the board. That’s important for international investors. Even more important for domestic investors.”

“Domestic investors should be able to invest all over Indonesia as well. Such individual private entities can get together, aggregate; then national champions are created, first at national and next at international level. This happens in the Philippines, Vietnam, Thailand, across the region; and globally. These new Indonesian national champions can reach outside of Indonesia and compete on an international platform. […] SOEs on the other hand have crowded out the private sector and should reform their key performance indicators and incentives to enable and encourage SOEs to leverage private sector capital and efficiencies. SOEs should focus on projects of national importance that are riskier and more difficult to execute for the private sector.”

“If we want the port sector to grow and develop in a way that we want it to grow, there needs to be in a healthy port sector. And so revenues are important. I know sometimes we get uncomfortable with the idea of a public service creating a profitable revenue stream, but actually this is necessary. We want investors to be keen to come to Indonesia to invest in the port sector. We want a flying sector that can demonstrate to everyone that this is a priority for Indonesia and that this is a good business. We also want international and domestic incentives to be aligned. At the moment, revenues and tariffs for international traffic are much better significantly than for domestic traffic. Now there may be a lot of good reasons to subsidize domestic traffic, to reduce the cost of goods domestically, but we’re actually undermining domestic traffic, we’re actually undermining domestic shipping – because there’s no incentive to invest in port facilities for domestic traffic. The revenue streams aren’t there. There’s a huge incentive to invest in international traffic – not so much for domestic. There needs to be a positive incentive to develop domestic shipping.”

One way of doing this was illustrated by Ir. Wahyono Bimarso: “The Government should continue and finalise its discussions and action plan to create one holding combining Pelindo I-IV, as started in 2015 by Minister of SOEs H.E. Rini Soemarno. He also pleaded for the full activation and implementation of both Presidential Regulation No. 38 of 2015 and Law No. 17 of 2008 that introduced the landlord model inclusive of foreign entities. As ports are ultimately for social and economic benefit, the Government must be fully transparent to all citizens with regards to all facts and figures of all port and infrastructure funding, purchasing, contracting, and spending. Similar to the World Bank, he strongly advised the SOEs to promote competitive bidding and reconfigure its key performance indicators to ensure quality
performance and profitability. This also requires an overhaul and strengthening of education and vocational training, including of Corporate Social Responsibility (CSR) and in-country values in any port and infrastructure project.

Eng. Willem Dedden added that “In almost every discussion about port and shipping, the emphasis is very much on containers and transshipment of containers. Transshipment is only one of the functions of a port and not the most interesting, because transshipment is a marginal business and hardly generates socio-economic revenues. The industrial function of a port is much more lucrative (in terms of jobs, added value, investments etc.).” He mentioned that Government funding of the enabling infrastructure is a key success factor for the development of Kuala Tanjung.

Meanwhile, Dr. Chairil Abdini stated that “Indonesia has never been consistent and concise in policy making because, again, our government does not have a strong vision for infrastructure development. Unless the government creates a strong, concise, and precise masterplan, we will only put money everywhere and get nothing out of it.” In any port and trade development plan, the Government must take into consideration the market and hinterland connections of that particular area, ensuring that it is demand-driven and not supply-driven.

Dr. Robert Marbun advised that tax and customs reforms and policies are key to ease in doing business, as it will allow the state budget revenue to increase. Currently, Indonesia’s tax ratio is only 12.2% of GDP.

Priority Goals?
Dr. Ridwan Djamaluddin: “At the moment, we are not really a maritime nation, but in the next couple of years, I believe we have to become that, because as Pak Heru also mentioned, 70% plus of Indonesia is water. So whether we like it or not, we have to go through this maritime program.” If things continue “business as usual”, Indonesia will never reach an adequate economy. Indonesia’s education level workforce must be prioritized as currently, 3 out 1000 people are engineer in Indonesia; it is too low. Local content in all projects must be considered as well.

He emphasized that the Government must accelerate the programs of the RPJMN as it is the last year before the term ends. He stated that with Indonesia as an archipelagic state, even the largest on earth, “we really have to connect all those islands. Not connecting by bridges, but connecting them by different ways so that all the 17,000 plus islands will be connected properly”. The 2020-2025 RPJMN’s key words lie in “a strong economic structure, regional competitive advantage, and quality human resources”.

“We are discussing economic corridors with the Chinese Government. It’s not an exclusive project, but also open for other interested parties in this region. North Sumatra, North Kalimantan, and North Sulawesi, total 60 bn USD. With the Government of China, we have been assessing this since May 2017. They have responded positively, but again it’s not exclusive and open to any interested partner. But the spirit is to guarantee development in Indonesia, outside of Java and to other regions.”
Ir. Wahyono Bimarso reminded everyone that there is a direct relationship between ports and infrastructure and a still growing rich-poor divide. Ports are crucial for socio-economic benefit, and must be invested in by the Government.

DG Danis Sumadilaga stated that the Ministry of Public Works and Housing’s Strategic Regional Development (WPS) approach, various development targets in the relevant sectors are prepared to ensure water and food security, strengthen inter-regional connectivity as an increase in competitiveness, improve the quality of residential environments, especially cities as "engines of economic growth", and build from the periphery to reduce disparities between regions, as well as connecting western and eastern Indonesia. He added that “Placing infrastructure in the priority position of national development policy is a logical and strategic choice. Based on the infrastructure competitiveness index, in the period 2017-2018 (World Competitiveness Report 2017-2018) Indonesia’s position increased to be ranked 52 out of 60 in the previous year. Infrastructure improvements also increase Indonesia's competitiveness in general from the rank 41 in 2016 to 36 in 2017. The construction of infrastructure as a top priority is a strategic choice in increasing Indonesia’s competitiveness while catching up.” That is why, in his view, all the efforts that we devote continuously in building infrastructure, is not for extravagance, but solely to fulfil the needs of the country while catching up with other countries that have already built their infrastructure. “We set infrastructure services not only as basic infrastructure but also as competitive infrastructure, namely the right quality, timely, cost-effective and appropriate.”

Furthermore, he opined that “The birth of a competitive infrastructure cannot be separated from well-planned and well-institutionalized planning and programming. For this reason, in 2015, the Ministry of Public Works and Public Relations gave birth to the Regional Infrastructure Development Agency (BPIW) as a form of institutional innovation so that the planning process runs more integrated and programming runs more synchronous and measurable with the Strategic Development Area (WPS) approach.”

Dr. Robert Marbun explained that “When we are talking about ports, we learn from foreign countries that they consider port and port infrastructure as public goods. It means that it’s not for profit, but basically is to serve the public. As a result of good operations, it will produce profit. But profit is not the target”. For the Ministry of Finance, the 2019 state budget policy is to strengthen infrastructure development, as well as providing fiscal incentives for export and investment. “The Government and everyone else must examine what the real problem is on why port performance in Indonesia is poor compared to other countries. [...] There needs to be an increased expenditure on human resource development and significant improvement of health. Bad health reduces productivity and progress.”

Professor Delmon stated that the efficiency of a port extends beyond maritime operations. Maximizing revenue and attracting business, requires efficient maritime, terminal, and hinterland performance. “My final recommendation is about financing. The Indonesian financial markets at the moment aren’t sufficiently deep to meet the needs of infrastructure of Indonesia. [...] We need foreign capital. And more and more of it. The port sector is a very interesting opportunity. In particular international traffic, where you get a foreign currency revenue stream, fantastic opportunities exist to attract more of that foreign investment.”

Mr. Daniel van Tuijll of the World Bank explained what should be prioritized by the Government to bring in the foreign investment. “The very first priority is to build the basic infrastructure and facilities. By adding the private sectors participation, the government can shift the risk and shift the mitigating
tool to them. However, the government should give freedom to the private sector on how they are going to deal with the project, especially regarding tariffs. Indonesian current regulation states that the only profit gain for the private sector is 25%, hence this risks chasing away the potential investments.”

KPPIP Program Director Rainier Haryanto highlighted that “Indonesia’s Infrastructure Priority Project and National Strategic Projects (NSP) are selected with certain criteria to provide the backbone for the future infrastructure development which comprises of many things. The existence of both NSPs and priority projects is not because of a top down approach or someone instructing us but it is because we develop the business case through the technical feasibility study, not only from the project point of view but from the economic point of view as well.” He also stated that the actualisation of the Global Maritime Fulcrum is targeted to create connectivity that is based on the RPJMN, priority project, and national strategic programs. The private sector has the potential to contribute up to 59% of the total investment value required to deliver PSNs.

Kuala Tanjung?
Minister of Transport, H.E. Budi Karya Sumadi stated that Indonesia will prepare Kuala Tanjung that will be inaugurated in this month or next month as Indonesia’s second hub, face to face with Singapore and Malaysia. He invited countries to invest and cooperate in Kuala Tanjung.

According to a 2015 study of the Ministry of Transportation Kuala Tanjung will increase container volumes to 12.4 million TEUs by 2029 and the transhipment by 63%, while potential trade is projected in excess of 180 Mipa by 2065. As the main logistic gateway to Sumatra island, Kuala Tanjung is expected to reduce logistics cost and boost the regional economy.

Laksana Gandaatmaja Abednego, former lecturer at ITB, raised a concern about the feasibility study of Kuala Tanjung. If the Port of Rotterdam study on Kuala Tanjung implies this port is not feasible, then why has the Government moved forward including with the issuance of a Perpres that separates port operator and industrial area? Several other questions related to the state of readiness of Kuala Tanjung, its current viability and the lack of information about current and future developments were raised.

According to Mr Willem Dedden, based on Port of Rotterdam’s feasibility study, the key success factor of Kuala Tanjung lies in the aligned government approach which consists of government funding and strategic SOE investments which will attract private investors. A potential scenario is as follows: the government provides funding for the enabling infrastructure, SOEs help to lay the foundation of industrial clusters. The Port Development Company, in which Port of Rotterdam could be shareholder, will then develop the Port, including investments in the infrastructure, and attract further private investors by connecting the port to world markets.

The commercial strategy of Port of Rotterdam for Kuala Tanjung Integrated Hub Port and Industrial Area is to expand the gateway function of the port with a strong industrial basis through a number of industrial clusters (petrochemicals, power, metals etc.). Transhipment will subsequently follow. According to the throughput forecast by Port of Rotterdam, Kuala Tanjung can reach a potential of around 200 million tons by 2050 if this commercial strategy is applied in the development process. Furthermore, this strategy will also give Kuala Tanjung the highest socio-economic impact to the society through employment.

According to Mr Dedden the most viable scenario of Kuala Tanjung development is through collaboration between Government stakeholders and the private sector by establishing a port
development company. The President of the Republic of Indonesia through Perpres No. 81 Year 2018 has already appointed the Coordinating Ministry of Economic Affairs to oversee the development of Kuala Tanjung. A Steering Committee under it could hold the role of decision making, reporting, and debottlenecking, and provide the guidance and steering to all of the relevant stakeholders to achieve government goals.

Indonesia can adapt the success story of Port of Sohar in Oman with its solid diversified base consisting of petrochemicals, metals, and energy and utilities. By creating a solid partnership between all relevant stakeholders, it will be possible to unlock Kuala Tanjung’s International Hub Port and Industrial Area potential.

**Funding**

Kuala Tanjung under the Presidential Regulation no. 81/2018 is developed under Pelindo I and, for the industrial area, together with Inalum. The funding aspects include equity by the Port Development Company, commercial loans of banks and multilateral finance institutes, but will also require the Government to fund the gap on non-commercial conditions. According to **Mr Willem Dedden**, profitability of the Port Development Company is not the first target; but ports should in the end be profitable in order to maintain an investment program in the port infrastructure, needed to attract the inflow of private investments and to contribute to economic growth.

**Mr. Daniel van Tuijll** proposed that the Government should prioritise the basic infrastructure and tariff reform. In his view, the tariffs set by the Government are too low for investors to reach the Return on Investment because under the current regulation, the maximum profit that can be gained is only 25%.

The Finance Minister’s representative **Dr Robert Marbun** explicitly referred to the capacity of the Government to invest in the required basic infrastructure to attract foreign investment. **Eng. Wahyono Bimarso** pointed at Presidential Regulation no. 38/2015 and particularly the application of the Viability Gap Funding in accordance with Presidential Regulation No. 38/2015 on PPP in infrastructure provision, and Minister of Finance Regulation No. 223/PMK.011/2012 on the provision of the Viability Gap Fund. This would be an appropriate basis for Government funding of basic infrastructure for a key important project as Indonesia’s first deep-sea port.

**Closing Remarks**

Secretary General of the Indonesian Institution of Engineers **Dr. Purba Robert Sianipar** expressed his appreciation for the fact-based and open dialogue on the important matter of Indonesia’s ports and infrastructure policy. Today’s debate not only greatly enlightened the audience with the views and insights of key Departments, experts and scientists but also allowed all to address serious challenges and opportunities. “It is now our task to inform our Government. Many suggestions have been made. When I asked all speakers about their core priorities, all referred to seriously upgraded education and vocational training so as to ensure that poverty can be alleviated by providing jobs in the ports and infrastructure sector. We will work together with all experts at this seminar to ensure that Indonesian human resources will be optimally equipped for the global competition. Last but not least, Deputy Minister Dr Ridwan Djamaluddin is right, there are not enough Indonesian engineers and their education must be improved. Through their work and position they should be the connecting point for ports and infrastructure development in Indonesia.”

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