

## Chapter 22

### LOGISTICS IN INDONESIA

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- Indonesia has been undertaking major and simultaneous structural reforms in the logistics and transport sectors with new laws since 2007, and the detailed and final National Logistics Blueprint is expected to be formally released later in 2010.
- Critical to achieving the coordination required includes: establishing a formal process in which all relevant parties are involved, providing funding for it and providing the process with relevant powers to make changes to policies and practices.
- It is important to include all stakeholders, not only the suppliers but also the users of the services – public and private – from the beginning and to have a functional organisation as well as to monitor progress.

#### 22.1 INTRODUCTION

Indonesia has undergone various major periods of structural reform over the last two decades and these have brought considerable benefits and a generally strong economic growth trajectory, except during the Asian economic crisis of 1997–98.

In this case study on the impacts and benefits of structural reform in Indonesia, the focus is on the logistics sector. This sector was chosen not only because the performance of logistics itself is vital to Indonesia's domestic and regional integration and competitiveness but because the logistics sector also provides a window into a wide range of simultaneous structural reforms now underway in Indonesia, particularly in the transport sectors, where inadequate infrastructure and outdated regulations are holding back performance.

This case study offers an opportunity to examine how effectively Indonesia is implementing structural reforms in a policy environment where connectivity and linkages are important. It explains why a multi-sectoral approach is required, presents an example of a project of that type in progress and identifies the challenges for the future. The preparation phase in Indonesia is just being completed but work to date provides a variety of insights and lessons for the design and implementation of projects of this type.

The study is structured as follows. First, it outlines the unique strategic environment in Indonesia in which structural reforms are being considered and made. These include geographic and economic features. It reviews the current performance of the logistics sector using the World Bank 2010 Logistics Performance Index (LPI), which highlights particular

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weaknesses in transport infrastructure. It then provides an overview of the directions of Indonesia's new National Logistics Blueprint which, as of the time of writing, is with the Government of Indonesia (GOI) for approval and formal release. Finally, the key drivers of the future structural reform process are identified and analysed in order to provide insights into the challenges and potential for achieving difficult and complex outcomes. A theme of this case study is that the international context matters to a significant degree as a driver of reform, both in its competitive and cooperative dimensions. Linkages to work on logistics and supply chains in APEC and in ASEAN are also noted.

## 22.2 THE IMPORTANCE OF EFFICIENT LOGISTICS TO INDONESIA

Logistics is vital for the economic performance of any economy. For Indonesia, there are particular reasons why logistics is a high priority issue and why the challenges of designing and implementing reform programs are more challenging. There are also reasons why transport infrastructure and transport services play a major role in the outcomes for logistics.

As indicated in Table 22.1, Indonesia's geography and the distribution of industry and resources pose a major challenge for efficient and low cost logistics. Indonesia is the world's largest archipelago spanning more than 5000km. Approximately 60% of its population of about 240 million people live on Java; the remaining 40% are distributed among 6000 inhabited islands which are often very sparsely populated. Java is also the centre of manufacturing, while resources are widely spread over the archipelago.

Even though Indonesia has 25 strategic ports and 27 airports with international status, domestic and international transport hubs are focused on Jakarta, in Java, creating major challenges for inter-island connectivity and development. Many of the inter-island connections are conducted through small commercial and non-commercial ports and hundreds of small domestic airports.

In the recent years of growing regional and provincial autonomy, issues associated with the distribution of resources, industry and people have taken on new importance, as popularly elected governments and officials across the economy demand a larger share of national development.

**Table 22.1: Strategic environment and challenges of Indonesia.**

<b>Distances</b>	<ul style="list-style-type: none"> <li>• More than 5000km across from northwest to southeast</li> </ul>
<b>Coverage</b>	<ul style="list-style-type: none"> <li>• 6000 inhabited islands</li> <li>• Equipped only by:               <ul style="list-style-type: none"> <li><i>Ports:</i> 25 strategic; 111 commercial; 614 non-commercial</li> <li><i>Airports:</i> 27 with international flight status; 100s more domestic</li> </ul> </li> </ul>
<b>Distribution of People</b>	<ul style="list-style-type: none"> <li>• Total population: 240 million people               <ul style="list-style-type: none"> <li>Sumatra: 20%</li> <li>Kalimantan: 10%</li> <li>Java: 60%</li> <li>Sulawesi: 8%</li> <li>Irian Jaya: 1%</li> </ul> </li> </ul>
<b>Distribution of Activities</b>	<ul style="list-style-type: none"> <li>• Manufacturing: Java</li> <li>• Natural resources: Outside Java</li> </ul>
<b>Integration and Development</b>	<ul style="list-style-type: none"> <li>• Integration of Indonesia's 33 provinces now an imperative for development</li> <li>• Regional integration with ASEAN and ASEAN-based FTAs and EPA with Japan</li> <li>• Competitiveness in regional and international supply chains</li> </ul>

There are high cost differentials among regions on products like staple foods and basic products for industry and construction, which leads to constraints on development. According to the World Bank, the cost of shipping of a 40ft container from Padang on the coast of West Sumatra to Jakarta is currently USD600, while transporting the same container from Jakarta to Singapore costs USD185, despite the latter being further away. In addition, differences in logistics costs are an important reason why rice prices in one province can be up to 64% higher than in another (World Bank 2010).

The results of poor connectivity are evident in many other price differentials and transport problems. These are major issues for the achievement of the goal of inclusive growth. World Bank research in Indonesia in 2010 also reveals that:

- The price of a bag of cement in certain parts of Papua is 20 times that in Java. The price of a gallon of water in Medan is double that in Jakarta. Oranges from China are cheaper than oranges from Pontianak (Kalimantan). High domestic transport costs are the main reason.
- 70% of price differences in rice across provinces can be explained by the degree of remoteness, which in turn is a reflection of poor logistics and inadequate transport infrastructure.
- Availability and prices of basic commodities fluctuate widely in remote areas. For example, gasoline prices in Di Kisar Island are three times higher in rainy season than in dry season.
- High quality products with great potential, such as shrimps from eastern Indonesia, cannot be commercially processed in Java, and commodities like pineapples are canned abroad because it is cheaper to transport them to Malaysia than to ship them to Java.
- The costs of bringing a container from Jakarta's main industrial sites to the port are double that in Malaysia and Thailand.
- Some 10% of Indonesian exports leave ports too late and consequently do not reach the regional transshipment ports on time. Ships destined for local destinations are frequently delayed.
- Trucks transport approximately 70% of freight in Indonesia. The majority of the trucks on the road in Indonesia are old and poorly maintained.
- A truck making a round-trip from Bandung to Jakarta may spend up to 75% of its time parked due to customs processes, warehouse delays, and lift-on and lift-off queues.
- Trade and transport logistics are still mainly 'paper-based systems', which increases logistics costs in addition to illegal charges.

Deregulation of the transport sectors began in the 1990s. Some of those structural reforms are already yielding benefits. For example, when in 2002 Indonesia deregulated scheduled commercial air transport passenger tariffs, the price of air tickets fell considerably. Figure 22.1, prepared by the World Bank in Jakarta, illustrates the geographic distance between several major Indonesian cities and contrasts this with the economic costs of passenger air tickets and maritime transport costs which have not yet been deregulated. The results show that the economic distance measure based on the price of air transport tickets is now much lower than that based on sea transport costs.

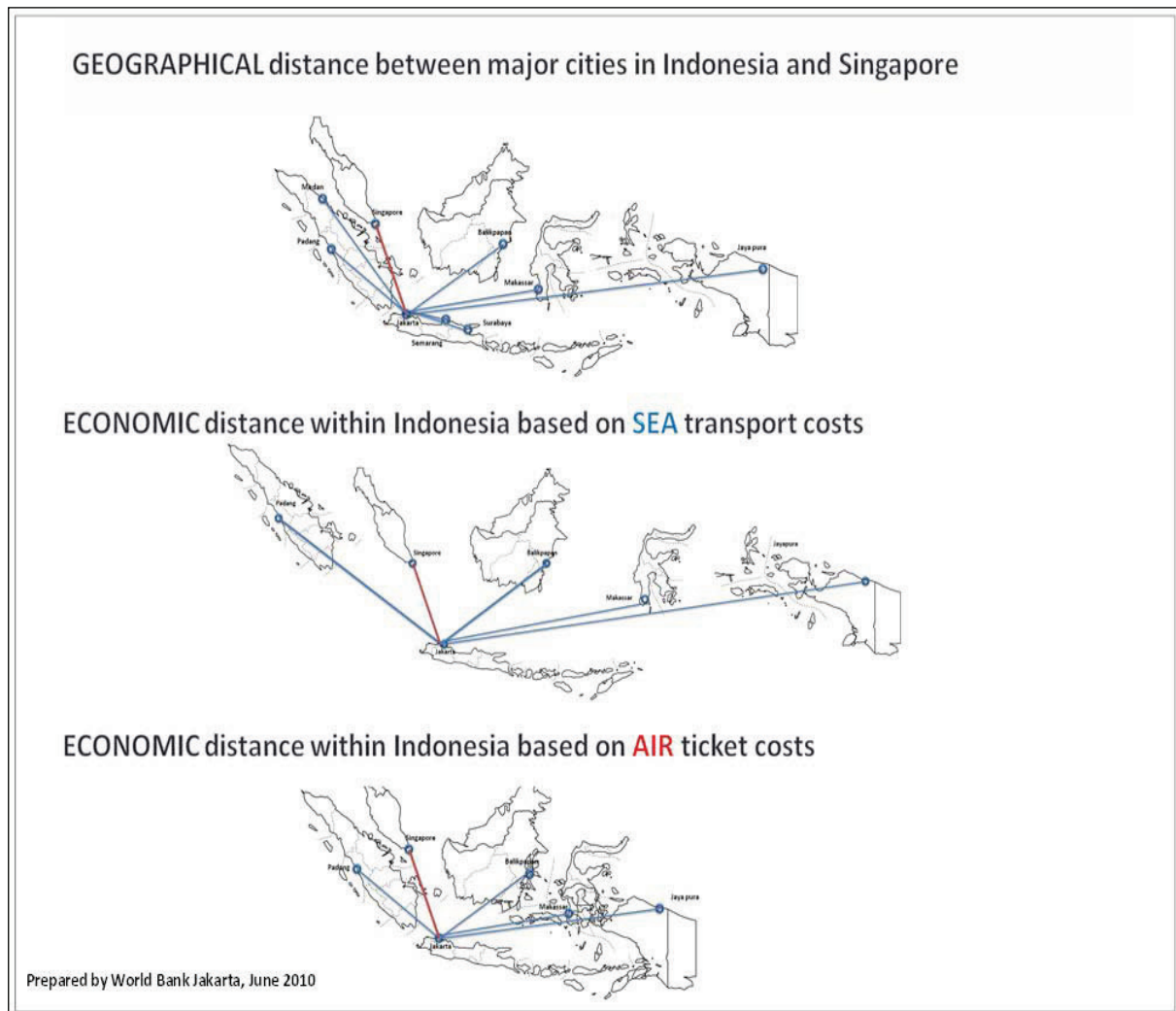


Figure 22.1: The economic distance within Indonesia based on deregulated air ticket costs vs regulated sea transport costs.

Indonesia has been undertaking major and simultaneous structural reforms in the logistics and transport sectors since 2007. Table 22.2 provides a summary of the legal and regulatory reforms that have been made and highlights those that are still currently underway. The foundations of these reforms were made through new laws for rail, shipping, aviation and land transport. These changes were largely motivated by the need to increase private investment in new infrastructure and to reduce the dependency on the state budget to meet growing demand throughout the economy for more modern and efficient infrastructure and transport related services.

Table 22.2: Structural reform agenda.

<b>National Logistics Blueprint</b>	To be released 2010
<b>Transportation:</b> deregulation of transport sector	Started 1990s
<b>New Laws</b>	
Rail	2007
Shipping	2008
Aviation	2009
Traffic and Land Transport	2009
<b>Master Plans</b>	
New National Ports Master Plan	Underway
New National Rail Master Plan	Underway

In 2010 new operational plans are being developed for logistics and ports and rail. The structural reforms show a trajectory away from government ownership to private sector participation and more independent regulation. This movement is ongoing, with further deregulation foreshadowed in many sectors.

Some of these reforms are being undertaken in cooperation with regional initiatives and reforms such as those in ASEAN.<sup>2</sup> A further driver of reform is the commitment to work in relation to logistics in APEC. In 2009 APEC adopted its supply chain connectivity (SC) framework, which laid out a set of actions to create an integrated supply chain and to contribute to integration among member economies. The project links the work of a number of APEC committees and working groups. A first step has been to identify eight key chokepoints in regional supply chains, related to regulatory impediments, customs inefficiencies, inadequate transport networks and infrastructure.<sup>3</sup> Action plans are being developed around these chokepoints for implementation in 2011. As these plans become clear, the Indonesian blueprint described below can be coordinated with commitments in APEC.

### **22.3 BENCHMARKING LOGISTICS' CURRENT PERFORMANCE**

Indonesia ranks 75th out of 155 economies in the LPI, which is used in this study to benchmark the current performance of Indonesia's logistics sector. While Indonesia's ranking remains above the average performance of the group of lower middle income economies of which it is a part, its ranking did fall from 43 in the 2007 LPI (see Figure 22.2). This is explained by relatively faster improvements and reforms in other economies since 2007.

Consequently, Indonesia's ranking is currently the lowest in the six largest ASEAN economies. Within APEC, Indonesia ranks ahead of Russia and Papua New Guinea.

The strengths and weaknesses in Indonesia's relative performance are revealed by more detailed analysis of the six components which make up the LPI, namely:

- Timeliness of deliveries;
- Ability to track and trace consignments;
- Quality and competence of logistics services;
- Ease of arrangement shipments;
- Infrastructure quality; and
- Efficiency of customs clearance.

Figure 22.3 shows the scores of Indonesia against APEC, ASEAN 6 and lower middle income economies for these six components. Indonesia performs relatively better in timeliness, tracking and tracing and international shipments and relatively worse in logistics competence, customs and infrastructure, even though it equals or is above the average of lower middle income economies.

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<sup>2</sup> These include: ASEAN Framework Agreement on Multi-modal Transportation in 2005; ASEAN Economic Community Blueprint 2007: Single Market and Production Base; Competitive Economic Region; Equitable Economic Development; Full Integration into Global Economy; ASEAN Integration Protocol for the Logistics Services Sector in 2013-2015; ASEAN Roadmap for the Integration of Logistics Services in 2007; ASEAN Multilateral Agreement on the Full Liberalization of Air Freight Services; and ASEAN Multilateral Agreement on Air Services; and ASEAN Framework Agreement on the Facilitation of Inter-State Transport.

<sup>3</sup> For the eight critical chokepoints refer to Appendix 8 of the CTI Annual Report to Ministers, 2009. A symposium in May 2009 contributed to the development of the APEC work plan (CIE [2009]).

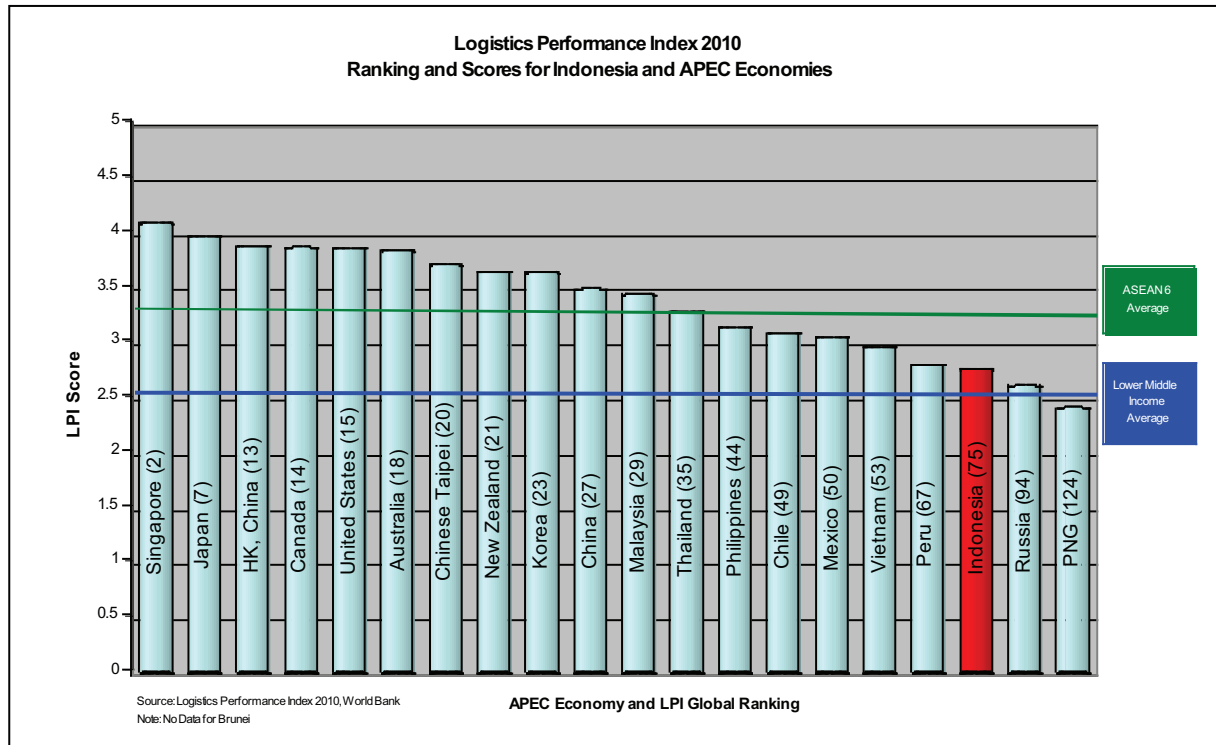


Figure 22.2: Global ranking and scores for APEC economies. (Source: World Bank Logistics Performance Index 2010)

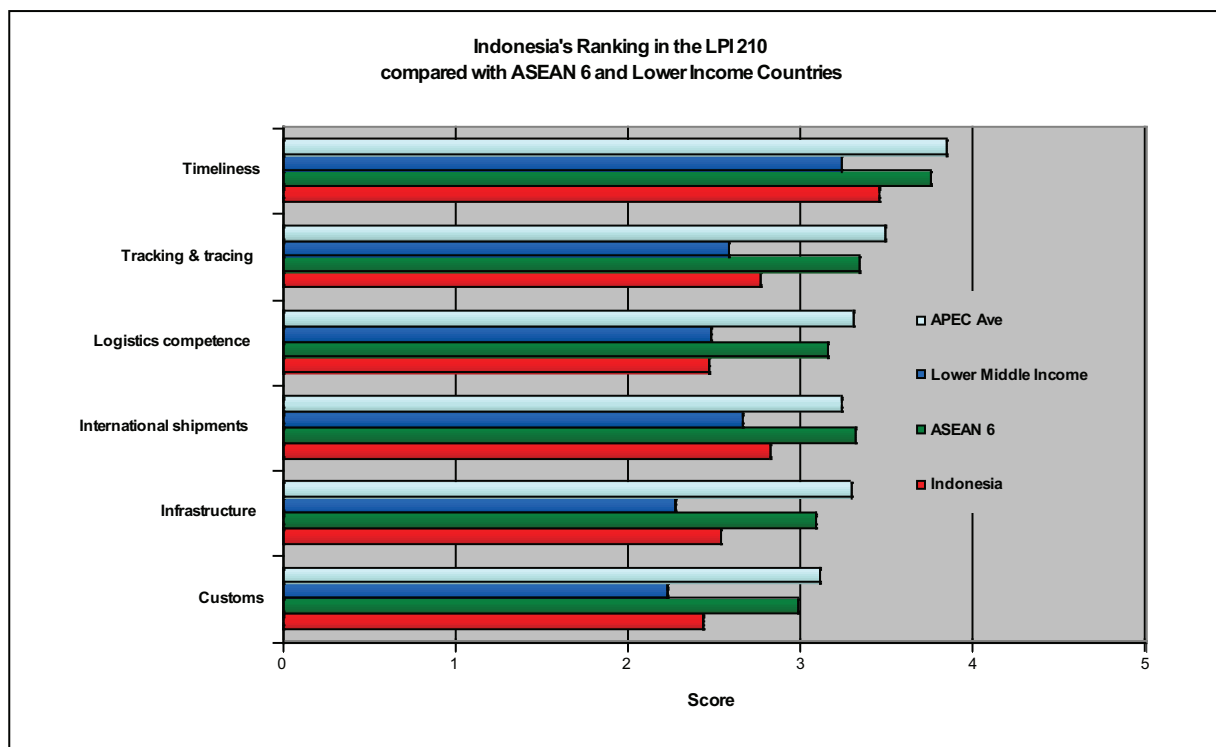


Figure 22.3: Indonesia's ranking in the LPI 2010 compared with APEC, ASEAN 6 and lower middle income economies.

This performance also reveals why the Indonesian government is placing a high priority on improving customs and infrastructure. In addition to the reform agenda on infrastructure, Indonesia has undertaken major reforms in customs to reduce corruption and increase

clearance times through the National Single Window (NSW), which is reviewed in more detail below.

The business respondents to the surveys associated with the LPI 2010 scores and rankings show a particular concern about the quality of transport-related infrastructure (see Table 22.3). Two-thirds of respondents evaluated the quality of port infrastructure as low or very low and more than 83% considered that road, rail and airport infrastructure was low or very low. These results point to the need to prioritise transport infrastructure in the structural reforms to improve logistics performance.

**Table 22.3: Quality of Indonesia's transport-related infrastructure.**

Sector	Respondents evaluating the quality of transport infrastructure as low/very low (%)
Ports	66.67
Airports	83.33
Roads	83.33
Rail	83.33
Warehousing/transloading facilities	16.67

Source: World Bank 2010

## 22.4 NATIONAL LOGISTICS BLUEPRINT

The response to these issues has been the design of a plan for logistics reform. The detailed and final National Logistics Blueprint is expected to be formally released by the government in late 2010.

In this document, logistics is defined as 'an operating procedure of goods-flow, information-flow, and cash-flow via procurement, storage, transportation, distribution, and delivery according to its type, quality, quantity, time, and location ordered by consumers, from the original point into final destination in an effective and efficient way'.

The vision of the Blueprint is for Indonesia to be locally integrated and globally connected by 2025 to increase national competitive advantage and national welfare. Box 22.1 provides a summary of the Blueprint and Figure 22.4 its framework. The functions of the Blueprint are:

- As guidance and direction in developing logistics for both the government and private sectors in order to:
  - o determine the economy's logistic policy and framework to increasing national competitive advantages in the global market;
  - o coordinate, synchronise, and integrate respective parties on the actuation of national logistic policy; and
  - o coordinate and utilise resources needed in an optimal manner.
- As a tool to communicate the vision, mission, objectives, strategy and action plan in the development of the National Logistic Blueprint.

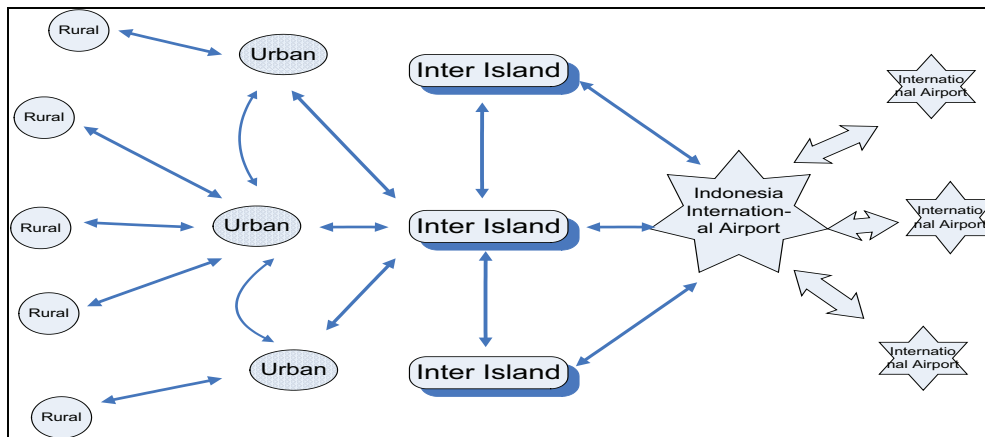
The development of Indonesia's National Logistics Blueprint was coordinated by the Coordinating Ministry of Economy with significant technical assistance from the World Bank and has been carried out over the last 2 years. It has involved 11 ministries, agencies and groups.<sup>4</sup> It has also involved lengthy consultations with independent experts and regular

<sup>4</sup> The groups involved are the Ministries of Trade, Transport, Finance, Industry, Public Works, Communication and Information, State-Owned Enterprises and National Development Planning/Bappenas, representatives from logistics service providers, professionals and academics in supply chain and logistics, and related associations such as the Indonesian Chamber of Commerce and Industry.

**Box 22.1: National Logistics Blueprint in summary.**

The National Logistics Blueprint:

- recognises a growing problem;
- is a high priority objective in the government's agenda;
- is a product of public and private consultation;
- has a commodity specific and supply chain approach that provides a framework to define distribution centres and to consider special treatment for products such as coal, oil and gas;
- identifies quick wins and actions that require more substantial preparations and investments; and
- recognises the need of a coordinating team and possibly an agency or council in the longer run.



**Figure 22.4: Framework of the National Logistics Blueprint network. (Source: National Logistics Blueprint 2010, executive summary)**

roundtable discussions with government agencies and the private sector hosted by the World Bank in Jakarta.

In accordance with the vision, two missions in the development of the Blueprint relate to inclusiveness and integration. These broad goals are aligned with Indonesia's development objectives and with commitments to APEC and to ASEAN. The more specific missions of the Blueprint are ensuring that primary goods and services are available and affordable to the citizens and adding to the efficiency of material flows in order to improve Indonesia's competitive advantage in the global market. More specific objectives are therefore:

- To ensure the availability of strategic commodities throughout Indonesia at affordable prices to create a just and prosperous society and strengthen the integrity of the Unitary State of the Republic of Indonesia (NKRI);
- To reduce logistics costs, facilitate the movement of goods and improve services, thus increasing the competitiveness of export-superior products on the global market; and
- To prepare for achieving the targets of integration into ASEAN logistics by 2013, integration into the ASEAN market by 2015 and integration into the global market by 2020, the latter date also being consistent with Indonesia's commitment to the Bogor Goals of APEC.

In order to clarify the Blueprint in a more operative manner, it indicates six major drivers which will determine and promote the success of the logistics revitalisation programs:

1. Primary commodity;
2. Logistics infrastructure;
3. Laws and regulation;
4. Logistics service providers;
5. Human resource and management; and
6. Information and communication technology.



The development of the National Logistics Blueprint is planned to take place in a systematic way over a 5-year timeframe from 2010 to 2014 (Table 22.4). Using the matrix approach, action plans have been grouped according to the six major drivers and classified according to priorities. This will streamline the implementation of the plans which are detailed in the matrix strategy and action plan of the Blueprint (Table 22.5).

**Table 22.4: Implementation schedule of the National Logistics Blueprint, 2009–25.**

<b>Terms</b>	<b>Short</b>	<b>Middle I</b>	<b>Middle II</b>	<b>Long</b>
<b>Periods</b>	2009–10	2010–14	2015–19	2019–25
<b>Stages</b>	Preparation	Phase I	Phase II	Phase III
<b>Targets</b>	Blueprint operation of National Logistics Blueprint Development	Laws improvement HR development Improvement of facilities and infrastructure.	Strengthen logistic facilities and infrastructure Development of logistic service providers' capacities.	Integration of National Logistics Blueprint in the domestic and global scale
<b>Direction</b>		Strengthen domestic logistic system	Integration to ASEAN logistic networks	Integration to global logistic networks

Source: National Logistics Blueprint, executive summary, 2010

**Table 22.5: Summary of the matrix strategy and action plan for the National Logistics Blueprint.**

<b>Key Drivers</b>	<b>Strategies</b>	<b>Action Plans</b>	<b>Timetable</b>	<b>Ministry in Charge</b>	<b>Related Ministries</b>	<b>Priorities</b>
6	Up to 3 in each driver	Up to 8 in each driver	More than 10 time periods	1	Up to 8 for an action plan	3 levels

Source: National Logistics Blueprint, executive summary, 2010

One of the principal challenges is how to ensure that the Blueprint can also be a useful and operational reference for implementation. The Blueprint involves a very significant number of strategies and actions to be implemented over a series of years. The difficulty is how to prioritise and sequence implementation in order to maximise the efficiency of logistics in the shortest possible time.

In discussions between the representatives of the Indonesian Chamber of Commerce and Industry, logistics industry associations and World Bank experts, several specific issues have been raised to improve the implementation process. Some of the priorities that should be addressed in the implementation of the Blueprint are:

1. Align objectives with priorities in implementation.
  - Create programs for implementation with various actions that are not carried out by a single ministry or agency alone. This will help to identify selected key performance indicators that are relevant.
2. Ensure there is a clear governance structure for implementation.
  - Empower agencies and authorities to issue or change necessary legislation or regulations, promote their implementation as a priority, and allocate resources for this;
  - Create smaller teams to implement and monitor the progress of the various programs.
3. Establish a clear monitoring scheme to assess the progress and impact of the reform.
  - Monitoring can be done from different perspectives: national, by program, by action and by the public or private sector.

4. Ensure that all relevant issues and relevant stakeholders are mentioned or involved in the reform process.
  - Include security, labour union management, environmental impact protection and quality and international standards;
5. Provide private sector incentives for envisaged investments in infrastructure and logistics services. Provide a role for stakeholder organisations in the implementation.
  - Explore methods to encourage their participation.
6. Develop pilot and phased implementation.
  - Ensure that implementation on key issues can be started and provide practical evidence of useful progress; and
  - Help to maintain expectations according to the stage of a specific initiative.
7. Develop a communications strategy.
  - Disseminate information on progress and initiatives on a regular basis; and
  - Keep the business community informed about new developments so they can adapt to new procedures more effectively.

The discussions among stakeholders revealed a concern about the capacity of government and the many agencies involved to coordinate implementation across the wide range of issues in the Blueprint. In the context of setting the institutional frameworks, Figure 22.5 summarises some of the lessons learned from the past in implementing significant multi-agency reforms, with suggestions on how to get the implementation started.

## **22.5 FIRST STEPS**

The second Yudhoyono Government put measures in place in 2009 to remove ‘bottlenecks’. These trade facilitation measures were made to support and improve national logistics and they contribute to the implementation of the Blueprint. They are reported here to specifically illustrate reforms to date.

### **22.5.1 One-stop shop to facilitate investment**

In line with the momentum of Indonesia’s improving economic fundamentals, which has led to the improvement of the economy’s sovereign risk rating, Indonesia is in the process of reforming its business licensing services by establishing a one stop service. All business licensing procedures in all regional branches will be linked by an electronic licensing and information services – also known as the National Single Window for Investment, the same concept used for the National Single Window for export/import activities. The chairman of the Investment Coordinating Board has issued a joint decree designed to expedite all licensing procedures for starting a business. At present the process takes about 60 days to complete. After abolishing 70 redundant permits only 17 permits are required now. The final step will be to produce one page showing that all requirements have been fulfilled for granting a licence to start a business anywhere in Indonesia.

### **22.5.2 New funds for infrastructure**

As part of the government’s commitment to accelerate improvements in infrastructure the Ministry of Finance has established a PPP infrastructure financing facilities framework, which includes new processes for access to land, an infrastructure fund and a guarantee fund.

## **Setting the Institutional Framework Implementation: Lessons from the Past**

**To have a successful reform agenda, the implementation of these programs needs to be supported by a cross-sectoral Team/Council**

- **Previous attempts to form cross-sectoral groups have had the following problems:**
  - ✗ **Not including all stakeholders in discussions and the decision-making process**
  - ✗ **No access to a multi-year budget that guarantees sustainability**
  - ✗ **Wide differences on remuneration for similar functions**
  - ✗ **Restrictions to recruit from the private sector**
  - ✗ **Retaining experienced personnel due to 'Tour of Duty'**
  - ✗ **Teams doing similar/same jobs**
  - ✗ **Coordination without power to allocate budget or legal mandate**

## *Setting the Institutional Framework Implementation: How to Start*

<b>Formalize</b>	<ul style="list-style-type: none"> <li>✓ Legal support and mandate from the president or the vice-president</li> <li>✓ Empower to issue/change regulations and recommend budget allocations</li> <li>✓ Appropriate funding</li> </ul>
<b>Be Inclusive</b>	<ul style="list-style-type: none"> <li>✓ All stakeholders from beginning of the program</li> <li>✓ Private Sector Participation for financing, coordination and feedback</li> </ul>
<b>Functional Organization</b>	<ul style="list-style-type: none"> <li>✓ Organisational structure, including scope and main jobs, functions, personnel, management and supporting</li> <li>✓ Ability to recruit private sector personnel and retain officials beyond the 'Tour of Duty'</li> </ul>
<b>Monitor Progress</b>	<ul style="list-style-type: none"> <li>✓ Monitoring system over all programs, with short-term milestones</li> <li>✓ Clear communication strategy to outreach businesses and international players</li> <li>✓ Produce and publish regular statistics</li> </ul>

**Figure 22.5: Institutional framework for implementing the National Logistics Blueprint. (Source: Discussions among Indonesia stakeholders, 7 May 2010)**

The infrastructure fund serves as a strategic partner of the government to expand and accelerate reliable infrastructure development by cooperation with third parties, including private business, local government, state enterprises and multilateral organisations. The company, which started operating in April 2010, will have several subsidiaries to help in the task. The company will be a catalyst to encourage infrastructure financing – making first moves in financing risky or expensive projects, which the private sector might avoid. Thus, it will not compete with firms in financing infrastructure projects in the economy. Furthermore, it was designed to focus on specific projects without ‘crowding out’ business opportunities for private financing firms. The company has initial capital of IDR1 trillion (USD110 million) allocated from the 2009 state budget, and will get up to IDR2 trillion (USD220 million) more in financial support from the Asian Development Bank and World Bank.

The objectives of the guarantee fund PT PII are:

- To reduce the cost of financing of PPP infrastructure projects by improving their quality and their creditworthiness through the provision of guarantees for government obligation in the PPP contracts;
- To help the government manage its fiscal risk better by ring-fencing government obligations related to guarantees; and
- To improve the quality of PPP projects and establish a comprehensive and consistent framework for appraising projects and making decisions regarding the provision of government guarantees to PPP projects.

### 22.5.3 Changes to the negative list for investment

In 2007 a new negative list for investment (Daftar Negatif Investasi; DNI) was released by the government to provide greater transparency and certainty to investors. The DNI reflected current laws in the transport sectors and further amendments to the list were foreshadowed as these laws were amended or new laws were enacted by the Indonesian legislature. After much discussion with stakeholders and some interim changes, a final revision of the DNI was released by the Government on 25 May 2010. The revision satisfactorily addressed many business concerns about the hierarchy of the law, compliance with international commitments and issues relating to mergers, acquisitions and consolidation. According to the DNI, all of the transport sectors have become more open to foreign investment. However, the 49% foreign ownership cap on transport sectors may dissuade some foreign investors. This rule makes the process more complicated as foreign businesses will need to find local partners. The direction of change in the DNI has been debated. For example, the Indonesian Ship Owners Association appealed publicly to the government that in implementing new regulations on ports it should prioritise local investors over foreign ones.<sup>5</sup>

### 22.5.4 Six new economic development corridors

The government has planned six economic development corridors in Indonesia: Eastern Sumatra–North West Java, Northern Java, Kalimantan, Western Sulawesi, East Java–Bali–East Nusa Tenggara and Papua (Figure 22.13). These are intended to connect hubs and industries between regions in order to accelerate infrastructure development, foster foreign investment and spur economic growth. Each corridor will be cross-provincial and have its own focus industries. The two fundamental attributes for growth in the corridors are lower distribution costs and more access to land to support economic activities in that location. In

<sup>5</sup> <http://berita.liputan6.com/ibukota/200109/19746/Ratusan.Pengusaha.Perkapalan.Mendesak.Pembatalan.PP.821999>



**Figure 22.6: Six economic development corridors across Indonesia.**

order to achieve this, physical links and logistics facilitation must be available along the corridors.

Indonesia has offered two special economic zones to Japanese investors, which will serve as pilot projects. The first corridor will connect locations in the eastern part of Sumatra Island and the northwestern part of Java Island to improve the palm oil, rubber and coal industries. The second corridor will connect locations in the northern part of Java to improve the textile, food product and transport equipment industries.

### 22.5.5 National Single Window implementation

The main driver for the establishment of a National Single Window (NSW) for trade facilitation is the broader initiative to create an ASEAN Single Window. The agreement to establish an ASEAN Single Window was signed by economic ministers of ASEAN in December 2005. In December 2006 the finance ministers of ASEAN signed the ASEAN Protocol to Establish and Implement the ASEAN Single Window. Based on this protocol, the six ASEAN members were required to set up their own NSWs by 2008.

The purpose of establishing an NSW in each ASEAN member is to simplify export and import procedures by allowing traders to submit a single document and receive a single approval. The challenge is to link the various agencies related to export and import approvals in one agency. NSW will facilitate the development of customs and electronic cargo agreements, allowing paperless trading and eliminating the necessity for direct contact between employers and entrepreneurs.

After an initial start at Indonesia's main port of Tanjung Priok and further trials and implementation at other sea and air ports, the NSW is now underway in Indonesia. Five major ports will have NSW facilities and be integrated into the ASEAN NSW by 2012. While some government agencies are not yet fully integrated into the system and some administrative problems have been identified by exporters and importers in outlying ports, implementation of the NSW has already led to significant improvements in efficiency.

### 22.5.6 Round-the-clock port services

To give importers and exporters simpler access to services, the government has launched a new policy called '24/7 programs'. All ports will need to operate 24 hours a day for 7 days a week in order to speed up customs clearance and reduce logistics costs. The government began running Indonesia's ports around the clock in January 2010, supported by the NSW. However, this out-of-normal business hours operation of ports and port-related services has raised several new questions about pricing of services, incentives for service providers to make use of the longer opening times, the capacity of factories to coordinate production with the new transport flows, and so on.

## 22.6 CONCLUSION

Indonesia has a long-standing record of successful structural reforms but these were carried out either under more autocratic regimes or under International Monetary Fund conditionality associated with the economic recovery programs following the Asian economic crisis of 1997–98.

The structural reforms in the logistics and transport sectors in Indonesia today are part of the wider economic reform agenda of the Yudhoyono Government. They are being undertaken in an entirely different context – one of democracy and open debate, pluralism and regional autonomy.

On the one hand this makes the policy reform agenda more complex and challenging. On the other hand it enables new drivers of reform to press for change in a way that they were not able to do before. The emergence of these drivers of reform is critical to the ambition of the structural reform agenda and to timely implementation, especially in the difficult areas of logistics and transport.

The activism of some of these groups is also driven by the urgency of infrastructure reform after many years of delays in progress. The lack of quality infrastructure, especially in the transport sectors and in the provinces, is now a clear constraint to growth and improved competitiveness. It is holding back domestic and foreign investment that is critical for Indonesia's long term growth and development objectives.

Substantial reforms are already in progress in the component transport sectors. It has also been important to coordinate reform across these sectors. The response has been the development of a national plan for the development of the logistics sector. This plan is challenging in its scope – in the number of sectors involved and the number of agencies involved. The formal plan is about to be released but a substantial amount of work has already been completed. Key principles for the design of its implementation have already been identified.

The next steps are the schedule of measures of implementation. During these stages the momentum will depend on some key drivers of reform. The key drivers of structural reform in logistics and transport in Indonesia now are:

1. Domestic business and foreign investors who are concerned about the cost of doing business in Indonesia in existing areas and who believe that opportunities are being missed to expand business in the potentially lucrative regions. They stress the urgency of action and the importance of finding short-term solutions along with the longer

term programs. Foreign investors are also concerned that Indonesia cannot be integrated into their supply chains without efficient logistics.

2. The 33 provinces of Indonesia which often face the consequences of the high cost of domestic transport and logistics and which are constrained in their ability to attract more domestic and foreign investment in other sectors without adequate transport and logistics. Popular elections and regional autonomy mean that the provinces are much more active in domestic political debate.
3. The Ministry of Trade which oversees both domestic and international trade and views the poor performance in logistics as a constraint to export growth.
4. The Ministry of Industry which is developing an ambitious agenda for the revitalisation of industry, including in the provinces. The share of manufacturing in GDP has not returned to that seen before the Asian economic crisis, and the lack of good infrastructure and logistics is seen as an impediment to markedly increasing this share. Cutting the costs of logistics and domestic transport is a pillar for the Ministry's regional development policy.
5. Obligations under the ASEAN Economic Community Blueprint commit Indonesia, along with the other major ASEAN economies, to open the logistics sector by 2013. While there is some concern about foreign competition in parts of the logistics sector there is also pressure to prepare for the target date set by ASEAN. This commitment in ASEAN is being reinforced by the development of the Supply Chain Framework in APEC.
6. Stronger international competition brought about through free trade agreements is already putting pressure on manufacturing sectors that are intensive users of logistics. There is a clear understanding in business and government that logistics performance remains critical to Indonesia's ability to integrate through global and regional supply chains.

There is also a fiscal dimension to the drivers of reform. State-owned enterprises and others who have enjoyed monopolies in the sectors associated with transport and logistics have often been reluctant to give up their exclusive ownership, but the government's inability to fund sufficient infrastructure from the state's budget means that they are now less active in opposition to reform.

Finally, these changes take place in an international context. The last two items on the list above highlight its importance. On the one hand the international context places competitive pressures on the Indonesian economy. But on the other hand it also provides various forms of international cooperation, including commitments to ASEAN and through APEC's focus on trade facilitation and connectivity through its supply chain initiative. This informational context provides both encouragement and credibility for the components of Indonesia's plan.

## **22.7 REFERENCES**

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