



# Indonesia Infrastructure Small Caps

*June 2023*



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compelling investment case not  
dissimilar to that of India; just  
with more catalysts and 2/3  
lower valuation



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## A Story of infrastructures

### **First Infrastructure Period: Dutch Colonialism, 1600s-1949**

Dutch colonial infrastructure in Indonesia was built across the archipelago that once was known as Dutch East Indies. Most of the better and permanent colonial era structures are in Java and Sumatra, which were economically considered more important during the Dutch imperial period.

#### **Early colonial period**

During the early period of colonization, the Dutch's infrastructure was mainly derived from knowledge and workmanship of the home country. On most cases, masonry was favoured for much of the construction.

This period saw the building of numerous forts by European powers across the archipelago, with the highest concentration located around the Maluku Islands. Most were built to protect Dutch interests in the spice trade controlled by The Dutch East India Company (VOC). There is particularly a high concentration of colonial buildings in Banda Naira, Saparua, and Nusa Laut, with several 17-18th century churches and fortifications.

Although row houses, canals and enclosed solid walls were first thought as protection against tropical diseases coming from tropical air, years later the Dutch learnt to adapt their architectural style with local building features. The Dutch Indies country houses of the middle 18th century were among the first colonial buildings to incorporate Indonesian architectural elements and adapting to the climate.

#### **19<sup>th</sup> Century**

At the end of the 18th century, great changes were happening across much of colonial Indonesia, particularly Java. The VOC had gone into bankruptcy and its possessions were acquired by the Crown of Netherlands. Economic reforms were started by the French-pro Governor General Daendels, who was appointed in Java to manage the deteriorating VOC outposts.



General Daendels initiated in 1808, the construction of historical roads such as The Great Post Road and North Coast Road, which run across island of Java, connecting Anjer(Anyer) and Paranoiacs (Panarukan). The roads initially served as military support and transportation to defend Java from British invasion and still is the

backbone of Java's transportation and logistics network.

Part of the Great Post Road in Kampung, West Java during colonial period- National Museum of World Cultures



Java Great Post Road, 1808-1811, spanning from Anjer (Anyer) to Panaroecan (Panarukan) - Gunawan Kartapranata

Historically in Java, the most populous among the many islands of Indonesia, the main crop had been rice. Starting in the 1830s, the Dutch instituted a sugar-growing system in some areas, building 94 sugar-processing factories, as well as roads and railroads to transport materials and products. This period is known as **The Cultivation System (tanam paksa)**.

In 1869, the Suez Canal has been opened which had increased the volume of ships travelling from Europe to the East. Soon after the **Liberal Period** started that took its name from the new leading political party in Netherlands. This party brought its influence on Indonesia, introducing the agrarian reform opening up the business to private enterprises. Sugar production doubled

between 1870 and 1885 and many other crops were introduced and flourished. New infrastructures were built to support the new business. Ports such as Tanjung Priok and Tanjung Perak were built between 1875 and 1881, to accommodate the increasing numbers of arriving ships. Those ports, together with Tanjung Perak in Surabaya, are still the main ports in Java today. In the late 19th century, Indonesia became the second country in Asia to build a rail transport system. The Dutch Ministry of Colonies finally approved a state railway system, the Staatsspoorwegen (SS), extending from Buitenzorg (now Bogor) in the west, to Surabaya in the east. Construction began from both ends, the first line (from Surabaya) being opened on 16 May 1878, and both cities were connected by 1894.

**Table 3.** Annual Average Growth in Economic Key Indicator, 1830-1990

| Periods            | Years     | GDP per Capita | Export Volume | Export Price | Government Expenditure |
|--------------------|-----------|----------------|---------------|--------------|------------------------|
| Cultivation System | 1830-1840 | n.a            | 13.5          | 5.0          | 8.5                    |
|                    | 1840-1848 | n.a            | 1.5           | -4.5         | Very low               |
|                    | 1849-1873 | n.a.           | 1.5           | 1.5          | 2.6                    |
| Liberal Period     | 1873-1900 | Very low       | 3.1           | -1.9         | 2.3                    |
| Ethical Period     | 1901-1928 | 1.7            | 5.8           | 17.4         | 4.1                    |
| Great Depression   | 1929-1934 | -3.4           | -3.9          | -19.7        | 0.4                    |
| Prewar Recovery    | 1934-1940 | 2.5            | 2.2           | 7.8          | 3.4                    |
| Old Order          | 1950-1965 | 1.0            | 0.8           | -2.1         | 1.8                    |
| New Order          | 1966-1990 | 4.4            | 5.4           | 11.6         | 10.6                   |

Source: Booth (1998:18)

## 20<sup>th</sup> Century

The **Ethical Period** started at the turn of the 20th century. In 1901, the Dutch queen under pressure of the public opinion, declared the promotion of an ethical policy aimed to bring prosperity to the people of Indonesia. The policy declared that financial transfers should not be made to the Netherlands while conditions for the indigenous peoples of the archipelago were poor. Internal migration was supported as well as the building of an education system and an irrigation infrastructure. These economic developments resulted in several construction booms in Indonesian cities.

The first state railway line was built through the mountains on the southern part of Java, instead of the flat regions on the north, for a similar strategic reason. The state railway in Java connected

Anyer on the western coast of the island, to Banyuwangi on the eastern coast. By the 1920s, the system had reached its greatest extent, with most towns and cities connected by rail, with branches and tramways connecting sugar plantations to factories. The Javanese network had a length of 4,807 kilometres (2,987 mi), connecting most parts of the island.



Arrival of a train in Bandung, 1907- National Museum of World Cultures

The Great Depression in 1929 put an end to this policy. During the Ethical Period there was increasing interest in exploiting Indonesia's wealth in oil and gas, leading capitalists to further set an eye on the archipelago and the Dutch to upgrade its infrastructure of harbours, roads, railway systems, bridges, etc. Significant improvements to technology, communications and transportation had brought new wealth to Java's cities and private enterprise was reaching the countryside.

However, The Great Depression of the 1930s held back plans of constructing railway lines in Borneo and Celebes (Sulawesi), connecting the lines in Sumatra and electrification of the lines in Java.



Map of Java's transportation network 2010, showing main roads, railways and ports built in the colonial era- Gunawan Kartapranata

Aviation service was pioneered in the early 20th century in colonial Dutch East Indies. In 1924, KLM started its first intercontinental flight, connecting Amsterdam to Batavia (Jakarta). Until the outbreak of the Second World War, this was the world's longest-distance scheduled service.

Air routes of the Dutch East Indies in 1925- National Museum of World Cultures



The airline of the former Dutch East Indies (KNILM) was established in 1928. Its first regular operations were between Batavia – Bandung, and Batavia – Semarang. Gradually, the services were expanded to include other islands in the archipelago, namely Palembang and Medan in Sumatra, Balikpapan and

Tarakan in Kalimantan, and Denpasar in Bali. Immediately before the Pacific War, KNILM also created a network in the east of the archipelago, serving small towns such as Ambon.

During the Japanese attack of the Dutch East Indies, KNILM was utilized for evacuation flights and transport of troops. KNILM could not operate in East Indies because of World War II and the ensuing Indonesian war for independence and disbanded completely in 1947.

## WW2

During World War 2, the infrastructure on the main Islands in the archipelago suffered substantial damage due to strategic bombing of industrial centres by the allies to drive the Japanese out of

South-East Asia. Encouraged by the events of the war, the influential nationalist leaders Sukarno and Hatta who had previously suppressed the independence movement, proclaimed Indonesian independence. The Netherlands attempted to re-establish their rule, and a bitter armed and diplomatic struggle began which drove the country's crippled infrastructure to a further deplorable state. The conflict ended in 1949 when the Dutch formally recognised Indonesian independence in the face of international pressure.

The lack of development due to the Great Depression, the turmoil of the Second World War, Indonesia's independence struggle of the 1940s and economic stagnation during the politically turbulent 1950s and 60s, meant that much of the colonial infrastructure has been preserved through to recent decades.

## *SOME INFRASTRUCTURES HAVE BEEN BUILT BY GENERAL SUHARTO*

### **Second Infrastructure Period: Repelita Projects (1968-1998) Under Gen. Suharto**

In 1966, President Sukarno, after 20 years in the position, was forced to sign a decree granting power to General Suharto to take measures to maintain the security, peace, and stability of the country, following the army and the communist party (PKI) confrontation. Sukarno's strength was increasingly diminished so that Suharto became the second President of Indonesia in 1968. This marked the emergence of a new era called the 'New Order' and meant that the government policies were drastically changed.

In the early 1970s, as a result of the increase in oil exports during the oil crisis, the government having the necessary resources, began a series of large-scale intensive investments under a series of five-year development plans (*Rencana Pembangunan Lima Tahun / REPELITA*), a classic among the dictatorships that help to keep the people support (included the many communists):

- REPELITA I (1969–1974) focused on agricultural improvements (Green Revolution) to ensure food security by increasing production of staple foods and some infrastructure development.
- REPELITA II (1974–1979) focused on infrastructure on islands outside Java and growth in primary industries and providing employment by creation of jobs
- REPELITA III (1979–1984) focused on achieving food self-sufficiency and growth in export-oriented labour-intensive industry. During this period efforts were made to facilitate the transition of the economy from largely agriculture dependant to industry.
- REPELITA IV (1984–1989) focused on growth in basic industries and capital-goods manufacturing to improve domestic capabilities of the country.
- REPELITA V (1989–1994) focused on growth in telecommunications, education, and transportation infrastructure. More national highways were built and several international airports such as Juanda Airport in Surabaya were inaugurated while efforts were made to upgrade the existing infrastructures.
- REPELITA VI (1994–1998, unfinished) focused on infrastructure to support foreign investment and free trade

The legitimacy of Suharto's authoritarian government came mainly from economic development that occurred during his reign. Desperate after the political turmoil of the 1960s, Indonesia embraced industrialisation which paid off turning Indonesia into a promising economy. Influential international institutions (such as the World Bank) declared Indonesia a 'Miracle of East Asia' in the 1990s.

However, the economic pillar which became the legitimacy tool disappeared when the Asian Financial Crisis struck in 1997. Indonesia was the country hardest hit by the crisis. The crisis not only destroyed much of the development under the 'New Order' regime, but it also toppled the powerful leader Suharto from power. He was replaced by his deputy, Vice President B.J. Habibie. The financial crisis caused many planned private and public infrastructure projects to be postponed or cancelled as the currency depreciated massively against the dollar and diminishing the viability of these projects. According to a report by The World Bank in 2004, public investment in infrastructures fell by as much as 75% between 1996 and 2001.

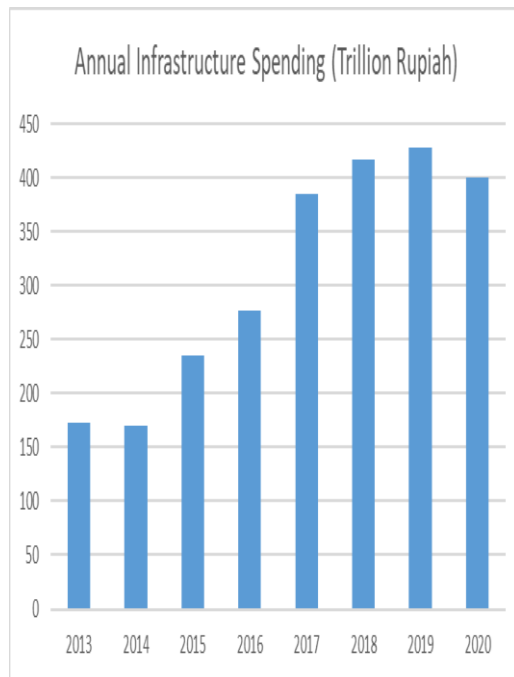
### **Reform Era (1999-2014)**

Following the parliamentary elections in 1999, the People's Consultative Assembly (MPR), elected Abdurrahman Wahid, as President for a 5-year term. President Wahid's government continued to pursue democratisation and to encourage renewed economic growth under challenging conditions. In addition to continuing economic depression, Indonesia faced regional, inter-ethnic, and interreligious conflicts. In 2001 under pressure from the MPR, President Wahid resigned in favour of the vice-president Megawati Sukarnoputri, who led the country until 2004. Under the first fully democratic government led by Susilo Bambang Yudhoyono between 2004 and 2014, infrastructure development was pursued as one of the main objectives of the government to attract foreign investment. The compound effect of the earthquake and tsunami in 2004 and the global financial crisis of 2008 led to straining of finances requiring the postponement of most projects again.

However, between 2011 and 2014 around \$73 billion had been spent to finance 383 long-term infrastructure projects under the “The Masterplan for Acceleration and Expansion of Indonesia's Economic Development (MP3EI)”. This was an ambitious plan proposed by the Indonesian government to accelerate the realization of becoming a developed country by 2045, thus laying a strong foundation for future administrations.

## *MOST INFRASTRUCTURES ARE STILL BEING BUILT ...*

### **Third Infrastructure Period: Jokowi's Arrival (2014-Present)**



In 2014, Joko Widodo, known as Jokowi, became the country's first leader from outside its political, religious, or military elite, which started a wave of optimism. The Jokowi administration did not use the term MP3EI infrastructure program anymore, although it did share the same vision as its predecessor through its own development plans, resulting in higher allocation of funds in the following years to infrastructure spending. As public debt relative to GDP remained low, the government adopted a long-term policy of financing infrastructure projects, aiming to have significant multiplier effects on the economy.

Source: Ministry of Finance

### **Infrastructure Development Plans**

#### **Focusing on.....**

### **Connecting Indonesia**

Indonesia is the world's biggest archipelago, with over 17,000 islands spanning some 5,000 kilometres. Most of Indonesia's people, wealth and economic activity are concentrated on densely populated Java, neglecting the rest of the country just east of Java and all the islands past Bali. GDP per person per year in Jakarta is roughly 41.2m rupiah (\$2,890); in Papua, Indonesia's easternmost province, it is 12.3m rupiah, and in Maluku just 2.8m rupiah. There is expectation that connectivity through better infrastructure will help bring down the cost of basic goods in the

**Report available on request for investors interested in the Project.**

**Please send an email to [info@nichejungle.com](mailto:info@nichejungle.com)**