By Raj Kannan

MP3EI—Connecting Indonesia

The three pillars of the government's 15-year economic master plan, MP3EI, are premised on firstly fostering a more equitable and widespread economic development across the six economic corridors. Secondly, MP3EI seeks to provide a better physical and people-to-people connectivity within the archipelago and with neighboring countries. Finally, MP3EI aims to spearhead a series of training and vocational programs to up-skill and up-resource human capital to support the demands of economic growth as well as to empower and encourage a future economy premised more on innovation, science and technology and less on low-end manufacturing and cheap labor.

The first two pillars are very much interrelated. Typically, developed connectivity projects such as highways, ports and airports often lead to direct and tangible economic growth along the corridor. Indeed, some of the major projects listed in MP3EI are aimed at spurring economic growth in corridors outside Java. For example, once the proposed 2,700 km Trans Sumatra highway is completed in a decade or so, the highway would be the infrastructure backbone of the island and the primary catalyst for growth along the highway's corridor.

Java remains the country's primary economic engine. The island generates almost 60% of the country's GDP and over 80% of the GDP of Java is concentrated along the northern corridor, from Merak in the west to Surabaya in the east. The Trans Java Expressway (TJE) was therefore designed to act as the infrastructure backbone of the North Java Corridor.

Sadly, after nearly a decade, key sections of this highway remain either unfinished or unstarted. Many studies show that every dollar spent on it will generate over four dollars in direct and indirect economic benefits. Yet the project remains mired in regulatory problems. The most obvious solution to this impasse is of course the political courage to terminate the concession agreements of all the sections that have not started and rebid them with Indonesia Infrastructure Guarantee Fund's oversight. The private sector proponents are however not keen on this solution, leaving the TJE in limbo.

Taking a leaf from TJE, the government's focus for the new Trans Sumatra and Trans Sulawesi highway projects are less on parceling these projects as small Build Operate Transfer schemes but more on finding total funding solutions. Indeed, that's why the government has nominated the Trans Sumatra highway to be developed by a state-owned enterprise (SOE); it aims to provide the company with a seed funding of $2 billion over four years. While this is a good move, the state owned enterprise must fully understand the implications of the project and develop a robust business plan to implement it. A project of this magnitude must show evidence of "value for money", particularly since public funds will have to be used to develop portions of the project. Thus open competition anchored by the SOE should be built-in as part of a total funding strategy.

The third and final pillar of MP3EI—growing Indonesia's human capital—should be the lasting legacy of MP3EI. MP3EI has plans to spend $20 billion annually to achieve human capital targets along with plans to establish new institutions of higher learning and vocational training institutions. The recently passed law enabling foreign institutions to set up campuses here is a major step in the right direction.

Overall, MP3EI is a well thought through master plan; its prime mandate of moving the country from the 16th largest to the 9th largest economy in the world by 2025 is achievable. I remain hopeful that politics will not interfere with this farsighted and equitable economic plan. F

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