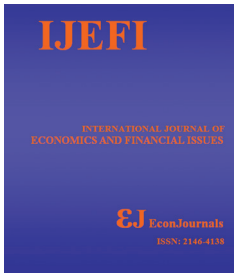

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Middle Income Trap and Infrastructure issues In Indonesia: A Strategic Perspective

Sigit Setiawan*

Fiscal Policy Agency, Ministry of Finance Republic of Indonesia. *Email: ssetiawan@fiskal.depkeu.go.id; sigitstiawan@gmail.com

ABSTRACT

This study aims to analyze why (the urgency) and how (the process) Indonesia has been struggling - in formulating strategic policy framework and the implementation - to fix its lack of infrastructure problem, as part of its effort to boost its economic growth and become a high income country. The scope of study is limited to infrastructure only, one of the critical concerns in leading the way to be a high income country. The study adopts qualitative descriptive analysis method.

Keywords: Economic Development, Fiscal Policy, Infrastructure
JEL Classifications: F63, E62, H54

1. INTRODUCTION

Indonesia is a developing and emerging country with moslems as majority like Turkey. Indonesia - situated in South East Asia region - is a member of ASEAN community and has the biggest market in the ASEAN community. Indonesian economy once was devastated in 1998 after suffering severe monetary crisis, triggering a historical painful chaos and socio economic upheaval in the country. To recover the economic and political stability, the reigning military regime administration had to step down as a consequence, and since then Indonesia embarked a new era ruled with democratic pillars and democratic government. Not long after Indonesia has made a remarkable comeback, it has almost doubled its gross domestic product (GDP) since 2001, maintaining an average growth rate of 5.3% - which records a considerable growth among the countries in the world. With its GDP per capita US$3,347 and US$11,058 Public Private Partnership (PPP) in 2015, Indonesia is now classified into a low middle income country.

Indonesia similar with Turkey is a member of G20 countries, a group consisting of several developed and emerging countries. Currently an emerging economy, in the future Indonesia is expected to be able to rise as a high income country, just like several fellow G20 members. Nonetheless, the issue of middle income threat may loom and obstruct the expectation when the issue is not taken seriously.

Indonesia's current and near future economic prospects will be marked by several factors which good policies can turn into robust drivers of growth: Favorable demographics, urbanization trend, and rising middle class. Demographics data shows that among 258 millions people (2015) living in Indonesia, more than a half of its population are below 30. With average population growth 1.5%/year in the last decade, it is predicted other 15 million people will enter the labor market, totaling around 135 million, by 2020. In addition, Indonesia has rapid urbanization rate with its urban population growing from 53% in 2015 to 60% by 2025[1].

In line with its increasing GDP per capita, currently there are about 50 million people in the middle class. The figure is continuously growing more than 2 million every year, which creates strong demand for goods and services. With its abundant natural resources and its strategic position in the most economically dynamic region of the globe, all these factors have the potential to boost Indonesia's prosperity.

1 All data source related with Indonesia is taken from BPS Statistics Indonesia.

However, Indonesia may risk slowdown in long-term growth due to external and internal sources. Main risks due to external exposure may come from the ups and downs of primary exported commodity prices and global interest rates[2]. Meanwhile, source of internal risks may come from inequality and unemployment.

Inclusive growth above 5% for Indonesia is crucial and necessary to escape the threat of middle income trap. By reaching average growth of 9%, it would place Indonesia to become a high-income country by the year 2030[3]. Learning the lessons from other countries, Indonesia views that formulating right strategies are necessary to avoid the middle income trap. Chinese Taipei, Hong Kong-China, Korea and Singapore - the 4 Newly Industrialised Countries or NICs - have been successfully recognized in earning income convergence with high-income countries while Latin American countries stay caught in the middle income trap. The NICs adopted export-led growth strategy by picking particular strategic industries. The government then facilitated the industries to implement gradual diversification and improvement into new products that needed the same skills and inputs.

The East Asian NICs notable success in the diversification and improvement of their export structure needs organized and integral policies covering the areas of infrastructure, education, innovation and financing[4]. Successfully integrated policies covering the four areas created high NICs' industrial competitiveness, and boosted the NICs economic growth to become high income countries. Although Indonesia has been copying export-led growth strategy[5], Indonesia has not successfully yet caught up with the NICs. Similar fact also has happened to other countries in ASEAN region like Malaysia, Thailand, and the Philippines. It is ironic since historically in 1960s all the forementioned countries and NICs started from similarly low GDP per capita[6]. Middle income trap which hit Latin American countries might also hit Indonesia if this issue is not taken seriously. Indonesian government is fully aware of such risk and has taken immediate strategic policy responses to tackle this issue.

This study aims to analyze why (the urgency) and how (the process) Indonesia has been struggling - in formulating strategic policy framework and the implementation - to fix its lack of infrastructure problem, as part of its effort to boost its economic growth and become a high income country. The scope of study is limited to infrastructure only, one of the abovementioned critical concerns in leading the way to be a high income country. The study adopts qualitative descriptive analysis method.

2. INDUSTRIAL COMPETITIVENESS AND INFRASTRUCTURE

In modern economic era, private and business sector - not government sector - understandably assume a role as the main driver of growth. Thus, strengthening national industrial sector to be internationally competitive is the only way for Indonesia to escape from the middle income trap (Basri and Putra, 2016). In this regard, the role of President as the head of state is crucial to prepare the necessary fundamental economy and to drive effective industrial policies[7].

Infrastructure has been long perceived as one of the main factors behind industrial competitiveness. Almost all business players who run industrial sectors have perceived such a similar position on the the impact of infrastructure on their competitiveness. Based on survey result in CBI (2015) in United Kingdom, 94% of businesses perceived the infrastructure quality as a decisive factor when planning future investment[8]. The result reinforced another previous survey by CBI and KPMG (2012) which shows that almost half of respondents from large companies (48%) value the quality and reliability of transport infrastructure as 'very significant' in their investment decision making, whereas there is just over a quarter of SMEs (26%) who share similar views.

In the context of the Japanese manufacturing sector, Kadokawa (2011) shows the evidence that infrastructure plays a significant role in directing the location of plants. After the availability of land, other factors i.e., highways, industrial zones, commuting convenience, and environmental restrictions are important reasons for businesses to decide an investment[9].

Based on the above surveys and evidence, businesses have obvious views that infrastructure plays important role in supporting their competitiveness. Domestic industrial competitiveness determines international country's competitiveness; thus, government should be concerned about its country's infrastructure gap[10]. Infrastructure gap in broad sense may vary among countries, not only limited to connectivity or logistics sector (including rail, roads, ports, sea ports, digital network), industrial zones, and energy which are directly related with industries, but also watering and irrigation for farming, and public health and education facilities which support indirectly toward industrial competitiveness.

In terms of connectivity or logistics sector, based on World Bank Logistics Performance Index 2016, the low logistics performance index that Indonesia achieved (2.98) has been contributed by inadequate infrastructure, as shown by performance index for Indonesian logistics infrastructure which is scored lower 2.65. The latter score of infrastructure index is lower than the average index score for 10 ASEAN member countries (2.79). It implies that Indonesian infrastructure quality (2.65) still lags behind average ASEAN members. Indonesian infrastructure quality exceeds that of Lao PDR (1.76), Myanmar (2.33), Cambodia (2.36), Philippines (2.55), and Vietnam (2.70), yet inferior to Brunei (2.75), Thailand (3.12), Malaysia (3.45), and Singapore (4.20).

The infrastructure issue in Indonesia has been one of the primary concern driving higher logistics cost incurred by industries. Logistics cost in Indonesian industries is the second primary costs

2 Foreign & Commonwealth Office (2014).
3 World Bank (2014).
4 Jankowska, et al. (2012).
5 Furuoka (2007), Kokko (2002), Palley (2011), Rahmaddi, R. and Ichihashi, M. (2011).
6 see GDP comparison in www.worldbank.org
7 Basri and Putra (2016).
8 CBI (2015).
9 Kadokawa (2011).
10 Luger, et al. (2013).

after labor and raw materials expenses[11]. Thus, higher logistics cost will be transmitted into higher consumer price and the consumer eventually bear the burden.

In comparison with other countries, Indonesia's logistics cost to GDP is still higher. Indonesia logistics to GDP is 23.5% in 2014, and targeted 19.2% in 2019[12]. Just compare with rival ASEAN countries such as Thailand (16% in 2015 and declining to 14% in 2016), Malaysia (14%), and Singapore's (8%); or Indonesian main trade partners such as China (18%), India (14%), South Korea (13%), Japan (9%), and United States (8.5%)[13].

3. INTEGRATED INFRASTRUCTURE DEVELOPMENT

A particular attention on infrastructure development was first iniated in Soesilo Bambang Yudhoyono second-term administration (2009-2014) and it has been continuing up to date in Joko Widodo administration (2014-2019). Previous administrations since Reform Era began in 1998 had been absorbed to lay necessary fundamental aspects for a big reform, which was a transformation from authoritarian to democratic state system. Structural reform has taken form in, among others bureaucracy reform, full support to transparency and accountability through the establishment of important institutions, including anti-corruption commission. In addition, power and authority to manage development is shared between central and local government through fiscal decentralization. To spur local development including in infrastructure, central government shares several fiscal authorities with local government. In the macro economy and state financial management, Government of Indonesia (GoI) pushes budget reform to stabilize and strengthen economic fundamentals after economic crisis 1998 and toward subprime mortgage crisis in 2008.

A comprehensive development concept - the so called The Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI) was initiated in 2011, as the implementation of the Law number 17 year 2007 on long-term national development plan year 2005-2025. MP3EI was formulated to support Indonesian ambition to become a developed country in the future. In that regard, information and considerations that encompassed a variety of potentials owned by Indonesia, particularly in natural resources, were taken into account.

MP3EI was a very ambitious plan, obviously identified from the target set to achieve. By this plan Indonesia will transform into a developed country by 2025 with expected per capita income of USD 14,250-USD 15,500 and total GDP of USD 4.0-4.5 Trillion. About 82% or equivalent to USD 3.5 Trillion is expected from six economic corridors: East Sumatera - Northwest Java, Northern Java, Kalimantan, Sulawesi, East Java - Bali - Nusa Tenggara and Maluku Islands and Papua. To reach the above objectives, Indonesia is targeted to acquire real economic growth of 6.4-7.5% with the decreasing rate of inflation to 6.5% during period of 2011-2014 to 3% in 2025.

After the MP3EI implementation, it is expected there would be gradual increase in Indonesian annual GDP growth around 12.7%, with regional growth within the corridor at 12.9%. The areas outside of the corridors would also benefit the spillover effects of economic development within the corridor areas and is expected to grow annually 12.1% as a result.

Historically, Indonesian economy has been long dependent to commodity export, i.e., coal and natural gas, and low value-added products, i.e., palm oil and textile[14]. When launched in 2011, MP3EI was intended to transform Indonesian economy, by managing Indonesian abundant amount of natural resources carefully in order to able to deliver adequate added value to encourage high quality economic growth. The plan would be possible if there were adequate infrastructures. The investment offer would be attractive to investors if - besides land availability - suitable infrastructures are provided.

The lack of infrastructures in Indonesia, especially in eastern area has long been one of the main obstacles for manufacturers and inter region connectivity. Indonesia is uniquely the largest archipelagic country in the world, with 17.504 islands scattering from the west to the east[15]. The vast sea separating the islands inevitably provide extra challenges for transport, logistics and product distribution compared to mainland area. Addressing the obstacle is crucial since it will diminish the high transportation and logistics costs, support local industry competitiveness and accelerate the distribution of products, which in turn facilitating the product delivered to consumers in more affordable price.

GoI through State Minister for National Development Planning/ National Development Planning Agency estimated that IDR 4,021 trillion investment and 90,000 MW electricity are needed to satisfy national infrastructure gap[16]. GoI will contribute about 10% of the total estimated investment, in the form of basic infrastructures such as roads, seaports, airports, railroads and power plants. The remaining investment - the biggest slice – is expected from the private sector, state owned enterprises (SOEs), and others. Infrastructure provision mechanisms offered can be in the form of joint investment scheme between the GoI and private sector through PPP.

With regard to MP3EI implementation during 2011-2014, at the end of Soesilo Bambang Yudhoyono second administration in 2014, GoI had realized 208 infrastructure projects out of 1.048 scheduled projects, and 174 real sector projects out of 350 scheduled projects. All those realized projects value was estimated IDR 854 trillion. In 2014, some other projects with total value IDR 412 trillion had

11 Mulyadi (2011).
12 STC Group, Logistics Association Indonesia, Institute of Technology in Bandung, World Bank Jakarta Office (2015).
13 see Board of Investment Thailand (2016), Goldsby, et al. (2014); Open Port (2016) see www.openport.com; Roland Berger (2016) see www.rolandberger.com.
14 Central Bureau Statistics (2016), see www.bps.go.id.
15 Ministry of Home Affairs (2004). See www.kemendagri.go.id.
16 Infrastructure Reform Sector Development Program (IRSDP) BAPPENAS (2011).

been launched: The invested projects of SOEs amounted IDR 157 trillion (38%), those of GoI amounted IDR 133 trillion (32%), those of corporate amounted IDR 29 trillion (7%), and those of joint investment scheme amounted IDR 93 trillion (23%)[17].

The Presidential Election 2014 resulted the new elected and current president Joko Widodo, replacing the former two-term president Soesilo Bambang Yudhoyono. The new administration set nine priority development agenda (Nawa Cita), as a priority reform for Indonesia to move forward to a country of political sovereignty, economic independence, with its own cultural character.

Infrastructure issue has also been a priority agenda for President Joko Widodo, head of current administration. It continues and improves infrastructure development agenda by the previous administration. The current administration has determined three development dimension: Human development, main sector development, and territorial and equity dimension.

Human development dimension consists of education, health, housing, and mental/character building. Main sector development dimension comprises 4 sectors: (1) Food sovereignty; (2) energy and power sovereignty; (3) maritime and marine; (4) tourism and industry. Meanwhile, territorial and equity dimension encompasses two sub dimensions: (1) Among group of income; (2) among region. In each development dimension, infrastructure issues are always present and need to be resolved.

The amount fund of fund needs to be raised for infrastructure investment project during Joko Widodo administration is Rp4,796 trillion. This amount includes the project continuation previously launched by his predecessor. The sources of fund are various, from state budget allocation and local government budget (Rp 1,979 trillion or 41%), SOEs (Rp 1,066 trillion or 22%), and private participation (Rp 1,752 trillion or 37%).

Not all project progress can be explained here. For illustration, in October 2016 some projects targeted for 2019 in food sovereignty have achieved certain progress: New farming irrigation development of 1 million hectare achieved 21% progress; whereas rehabilitated irrigation of 3 million hectare achieved 28% progress. Out of 65 dams (49 new and 16 continuation) targeted for 2019, the progress has been 57%. Part of projects for energy and power sovereignty are intended to enlarge electrification coverage to 96.6% in 2019. The progress achieved so far is 48%. In equity and territorial dimension, toll road development targeted 1,000 km long has progressed 27%, while for railroad project (incl. double track) targeted 3,258 km long has been around 21% accomplished. City transportation system development has been part of the dimension. The development (with each progress) includes the share of public transport use (30% out of 32%), city rail network (38% out of ten cities) and bus rapid transit system development (18% of 34 cities).

Out of that Rp 4,796 trillion fund, GoI still needs to invite other private sector fund for PPP scheme, which amounts Rp 64 trillion for 2015-2016 period. The PPP scheme is allocated for fiber optic digital connectivity across Indonesia, thermal power plant, and water treatment plant. Other fund raising scheme is equity participation from SOEs, which is intended for fourteen toll roads projects of Trans Jawa with total 700 km long during 2015-2016.

4. STRATEGIC IMPLEMENTATION IN REACHING THE TARGET

Indonesia has admittedly ambitious infrastructure development target, whereas the accomplishment is mainly constrained by time and financial resources. Indonesia needs to optimize the utility of its limited internal financing source, set more realistic goals for accomplishment during 2015-2019, and expect the highest impact for high quality growth. Thus, strategic plans are necessary related to priority infrastructure projects and financing aspect. Priority projects are derived from the list of national strategy projects.

GoI has listed national strategic projects in Mid-Term National Development Plan 2015-2019. The list consists of 225 projects and 1 electricity program for acceleration. The projects are distributed over national projects (10 projects), and main Islands: Sumatra (46), Java (89), Kalimantan (24), Bali and Nusa Tenggara (16), Sulawesi (28), and Maluku and Papua (13). Most of projects are dams (60), road construction (52), and economic zones (25). Other strategic projects with high cost and value are railway (19), airport (17), and seaport (13). Other strategic projects cover a variety of spectrum, covering housing, energy, fishery or maritime, water supply, communication, national border, smelter, and power.

Among the strategic projects, GoI determined thirty priority projects, which will be provided additional project preparation. The thirty selected projects among others are those of four toll roads, six railway network, two sea port hub and one new sea port, nine power plants, three transmission lines, and three refineries. A special unit was then established to serve as the priority project management office which coordinate the additional preparation, both technically and financially. Learning the lesson from several previous incomplete or long-delayed projects, GoI devised another strategic approach. It then set up the so-called KPPIP unit to ensure the priority projects satisfy the required specifications and be successfully completed.

Under the Presidential Regulation, the KPPIP is set to have six main tasks: (1) To develop pre-feasibility study and quality standard; (2) to determine priority projects (thirty projects are selected as previously explained above); (3) to determine funding scheme and source; (4) to monitor and debottleneck, including high level issues in national strategic projects; (5) to determine strategy and policy; (6) to facilitate capacity and institutional building related to priority infrastructure delivery. By the existence of KPPIP, GoI is able to show its commitment in setting up a robust project pipeline which boost infrastructure delivery. In this regard, GoI sets selected infrastructure delivery milestones each year. In addition, GoI also shows that it takes a pro-active perspective in constructing a conducive business climate and issuing policies which facilitate infrastructure investment.

17 Minister of National Development Planning (Bappenas/National Development Planning Agency) (2016). See www.bappenas.go.id

Based on its experience, GoI has identified there are several major concerns that continuously hamper its infrastructure project execution and discourage potential investors to participate. The first major problem is long complicated licensing and bureaucracy procedures in central and local government, which triggers gratification and eventually high cost economy. The corrupt attitude and bad governance will also lead to poor project quality result, which GoI then should incur the burden in the form of unnecessary annual maintenance cost. The second is very slow land acquisition process due to speculative practices related to acquired land price. As a consequence, investors have to incur big cost burden and uncertainty. The last is profit uncertainty amidst the big investment fund that an investor has to provide. Investors expect GoI or a reputable organization gets in to provide guarantee for project profit sustainability.

To attract more investors, GoI sets up new PPP supporting policies. With the existence of KPPIP and previously established agencies such as agencies dealing with anti-corruption and one-stop administration service, GoI targets the root problems can be identified and debottlenecked effectively.

By the regulation, GoI also provides more supports toward investors. First support is by easing land acquisition. In this regard, GoI assumes the responsibility for land provision of an infrastructure project. The commonly found acquisition denial of speculative parties will be ineffective, since the land will still be acquired by GoI while the money delivered for compensation based on professional appraisal will be administered in the court. GoI has recently pushed forward the land acquisition facilitation by establishing land bank, a bank under Ministry of Finance that acquires and collect land for national strategic infrastructure projects.

Second, GoI provides incentives for investors in (1) the certainty of return on investment with the payment by the user in the form of tariffs (user charge) or availability payment; (2) viability gap funding, which is a scheme of cash financing by GoI on some Private Public Partnership (PPP) project costs, in order to be able to provide public infrastructure services in reasonable prices; (3) GoI guarantee in the financing scheme involving international financing institutions, or guarantee from a specific appointed SOEs for infrastructure.

GoI also improves other aspects in PPP project management. Value for money principle is adopted in determining the priority and delivery mechanism to select PPP proposal. To gain more project ownership, GoI increases budget allocation in related ministries/institutions/local government for PPP projects. The capacity of human resources and institution involved is improved by setting up PPP focal points on related sector ministries and all provincial governments in Indonesia.

With regard to financing aspects for infrastructure, GoI is prepared for several strategic financing steps. First source of financing is surely from internal source taken from its state buget. GoI commitment to infrastructure is shown by the increasing trend of allocated budget for infrastructure since 2010. The allocated amount in year 2016 already reached approximately IDR 314 trillion, historically the highest allocated budget ever. However, this amount is only 2.8% of Indonesian GDP 2016 (current). On the other hand, GoI will need infrastructure investment at minimum 5% of its GDP to accelerate its economic growth above 7%, the prerequisite to reach its ambition to be a high income country in 2030 or so.

GoI sees that fiscal constraints leave limited room for allocating public investment at the scale required. The reason is GoI has to be selective and prioritize on non-commercially viable infrastructure projects. In addition, GoI should also share its attention to other crucial work programs in diminishing interregional disparities and income inequality. Therefore, finding external source of financing for infrastructure is a must.

GoI does not depend on a single external source of financing, yet it has various source to satisfy its budget needs. Reflecting its needs, Indonesian recent financing is dominated by infrastructure financing. Bilateral financing is one of the sources. In December 2016, the total amount of Indonesian debt to creditor countries is US$ 168 billion. The biggest five creditor countries are Singapore (US$ 50.3 billion), Japan (US$ 30.2 billion), China (US$ 14.8 billion), Hongkong (US$ 11.7 billion), and the United States (US$ 10.5 billion)[18].

Next financing source is international financing institution. Until December 2016, GoI is indebted to several international institutions with total US$ 30.2 billion. The biggest five creditors are International Bank for Reconstruction and Development under World Bank Group (US$ 15.8 billion), Asian Development Bank (ADB) (US$ 9.3 billion), International Monetary Fund/IMF (US$ 2.7 billion), International Development Association/IDA which is also under World Bank Group (US$1.5 billion), and Islamic Development Bank (US$ 700 million).

GoI through KPPIP is open for financing from other international organization and private sector. There are 102 national strategic projects (2016) at preparation stage and KPPIP is inviting international reputable organization and private sector to participate in project development facility. In 2016 KPPIP has calculated that those national strategic projects will need IDR 2,818 trillion funding. Some of the projects have strategic value as pilot projects, and international quality project preparation is therefore expected. Other than the above-mentioned international financing organizations, a newly established international financing organization like the Asian Infrastructure Investment Bank (AIIB) - which is backed up by the reputable ADB - is also being explored to see the possibility of AIIB to participate in the Indonesian infrastructure portfolio fund.

Other various financing options from pure SOEs, pure private participation, equity participation from SOEs, and PPP are also invited. SOEs and private sector are important GoI partners since they has more opportunity and flexibility than GoI to attract overseas money and utilize fund inflow from the tax amnesty program which applies until March 2017. SOEs and private parties grouped into consortiums have come from either local or foreign financial entities.

18 External Debt Statistics of Indonesia per December 2016.

However, all that would not be sustainable if GoI has not established certain prerequisite: Sound prudential macro economy and fiscal sustainability. Such economic and fiscal reform have gradually been launched since Reform Era commenced in 1998.

There are several economic and fiscal reforms important to note. The first is the issuance of financial system safety net laws and regulations which also includes the establishment of national coordinating committee in financial sector stability. The committee involves Ministry of Finance as the coordinator, Central Bank, Deposit Insurance, and the last joining Financial Services Authority. In the beginning not long after 1998 economic crisis, the regulation was issued. Recently in 2016, as the parliament agreed with GoI, financial system safety net system includes the committee establishment was approved as the financial system safety net law.

The second is prudent national debt management by a dedicated debt management unit under Minister of Finance. In cooperation with central bank, the unit has been effective in managing national debt. The unit is taken as a successful study case and has been visited by some developing countries (in ASEAN and under South-South Cooperation) who intend to learn how it works effectively. Under management of the unit, cash financing risk through government bonds is strictly controlled. In year 2016 bond issuance amounting IDR 600 trillion for illustration, the composition is 76% bonds are issued in local currency denomination and the rest in foreign currency. Local currency denominated bonds is so dominant in order to curb foreign currency risk potential, the risk that triggered severe 1998 economic crisis in Indonesia.

Prudent national debt management is also adopted by regulating maximum limit of debt to GDP ratio to 60% in the national laws. Up to date, except in the beginning of Reform Era 1998, GoI has always been conservative in practice by taking debt to GDP ratio below 30% in annual state budget. Indonesian state budget deficit is also maintained conservative below 3% GDP.

The last but not the least is a strategic decision by GoI in December 2014 to remove subsidy on medium and high quality fuel for the medium class and the rich, and provide limited subsidy on low quality fuel for the poor. By reallocating the unproductive fuel subsidy to productive sector subsidy such as health, education, and infrastructure, GoI has successfully tamed potentially malignant cancer cells in the Indonesian economy history. Fuel subsidy had previously been a main concern in Indonesia from one administration term to another, since every international oil price hike would lead to rising burden - fuel subsidy increase - in the state budget. The situation had historically left a small fiscal space for GoI to allocate in productive sectors.

5. CONCLUSION

Lagging behind the NICs today, Indonesia is fully aware that it should not let itself to be caught in middle income trap as Latin American countries have been. After intensive evaluation, as shown by several country comparison indicators, infrastructure has been one of Indonesian main concerns other than education, innovation and financing.

GoI developed a comprehensive, ambitious, and inclusive infrastructure development agenda called MP3EI to bring Indonesia closer to a developed country status in the future. The agenda was launched in 2011 and furthermore in 2014 it was refined into more focused infrastructure development agenda containing priority projects guided and monitored by a dedicated and specific taskforce. Since 2011, the infrastructure development including for noncommercial public infrastructure has been massive and at a much faster pace than before.

GoI has adopted various strategies to expedite infrastructure development. GoI encourages local government participation in infrastructure development by sharing budget allocation and authorities with local government. More infrastructure financing options are now prepared and included into the current financing portfolio: (1) State budget allocation and local government budget, (2) international institution financing, (3) bilateral financing, (4) pure SOEs, (4) pure private participation, (5) equity participation from SOEs, (6) PPP.

To attract more investors, GoI provides more supports toward investors. GoI eases land acquisition by assuming the responsibility for land provision of an infrastructure project. GoI also provides incentives for profit certainty and guarantee.

GoI also improves PPP project management in determining the priority and delivery mechanism to select PPP proposal. It also increases budget allocation to gain more project ownership and improve the capacity of human resources and institution involved in Indonesia.

The adopted financing strategies have so far been implemented effectively and the infrastructure development have run in a sustainable manner. Such a condition is due to simultaneous efforts from previous state administrations in laying necessarily fundamental reforms in macro economy and fiscal sustainability, which successfully rebuilt the nation economy after devastating economic crisis in 1998.

There are certainly various policy reforms issued by GoI, but several main policies are worth to note: The issuance of financial system safety net laws and regulations, prudent national debt management, and strategic reallocation of fuel subsidy to productive sectors.

Yet, some challenges which need GoI careful attention still remain. Local government expenditure effectiveness toward productive sectors need improvement up to date. The gap between the rich and the poor and among regions and tax reform as well currently are still important issues to resolve. Effective mix of fiscal policies need to be formulated, prepared and exist at the right time.

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