

THE FACEOFF OVER LAND IN RURAL INDONESIA

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Poor farmers are stymieing the government's efforts to build new roads and ports to boost growth

Semarang, Indonesia - Construction on the six-lane highway meant to span Java, Indonesia's most populous island, comes to an end 200 yards from Nur Salim's rice paddy. While bulldozers claw through woodland and level the red earth nearby, they can't go farther until Salim agrees to sell a patch of land the size of a tennis court. "We're going to fight to the end," Salim says in the wooden, single-story home where he and his wife raised their five daughters. "We have no deadline."

The dispute highlights the obstacles facing President Susilo Bambang Yudhoyono as he tries to fix the country's roads, ports, and railways. "We have been screaming about infrastructure for years," says Iskandar Zulkarnain, president of shipping company Internusa Hasta Buana.

While campaigning for his second term last summer, Yudhoyono pledged to double spending on infrastructure, to \$140 billion over the next five years. He believes that will help him boost economic growth to 7% by 2014 from an estimated 4.3% last year. During Yudhoyono's first five-year term, Indonesia built only 78 miles of expressways.

The Trans-Java Expressway might as well be called the Trans-Java Speedbump. The project began in 1988, but the government has yet to obtain more than half the land for the highway, which will stretch some 740 miles. Only about a quarter of it has been built, in more than 20 sections separated by miles of potholed, two-lane roads.

The problem isn't just with highways. Jakarta's Tanjung Priok port, the largest of the country's 2,000-plus seaports, will soon reach capacity.

Although an expansion is due by 2013, that will do little to ease congestion once goods leave the quays. Container trucks often need a day to move the seven miles to the nearest highway. The railway from Bandung, Java's third-largest city, stops a half-mile short of the main port, so goods must be transferred to trucks to make a train connection.

As a result, produce from the Indonesian island of Borneo can cost more than double that from China, says Zaldy Ilham Masita, chairman of the Indonesia Logistics Assn. "Companies come here because they see a huge market, but they don't intend to make Indonesia a production center because of the high logistics costs," Masita says.

Plenty of companies want to help. Siemens (SI) and Alstom are interested in building a \$200 million rail link from central Jakarta to its airport. General Electric (GE) sees "huge potential" for its power plants, locomotives, jet engines, and more, says David Utama, GE's Indonesia head.

Potential doesn't matter when you can't build. A 1961 law allows the president to seize land from those who refuse to sell, but no president has done that. "Can you imagine the president revoking the land of a poor owner?" asks Frans Sunito, president director of Jasa Marga, which is building the section of highway near Salim's home. A proposed law would shift the onus of seizures to the Public Works Ministry. While owners could appeal the ministry's decision, the land would be immediately transferred to the government. The measure would force Salim to sell—which he says he would do for some \$38 per square meter. That's about 15% higher than his neighbors received, so officials are reluctant to make the deal. "How can they call this a negotiation?" Salim asks, puffing on a clove cigarette. "We are ready to sacrifice our land only if the price is right."

Ten Kate and Sukarsono are reporters for Bloomberg News.http://www.businessweek.com/magazine/content/10_05/b4165066419741.htm