Executive Summary

Indonesia is the largest archipelagic state in the world. Indonesia’s coastline is the second longest in the world; two-thirds of its territory is sea. This geographical condition is like a double-edged sword: on the one hand, water resources are abundantly available, yet the development challenges faced are also more severe, specifically with respect to equity between regions.

There currently remains a large gap between development in the western and eastern halves of Indonesia. Economic development is concentrated in western Indonesia – known as the Western Indonesia Region (Kawasan Barat Indonesia) – especially in Java. In contrast, the Eastern Indonesia Region (Kawasan Timur Indonesia) is left behind compared to the western region. The eastern part of Indonesia does not have a strong industrial base and is constrained by the issue of limited connectivity. Low connectivity, both inter- and intra-regional, leads to high logistics costs in eastern Indonesia relative to those of western Indonesia, thus encouraging significant price disparities between western and eastern Indonesia.

The Maritime Highway programme is one of the government’s breakthroughs in the efforts of equitable development in the Eastern Indonesia Region, especially in disadvantaged, remote, outermost, and border areas (3TP). This programme aims to reduce the cost of logistics in eastern Indonesia through increased connectivity with western Indonesia by providing effective and reliable marine transport services as well as marine transport subsidies, revitalising civil shipping, and developing industries based on regional commodities. After operating for 5 years, has the Maritime Highway programme succeeded in achieving its expected goals? What are the lessons learned from the implementation of the Maritime Highway so far? What measures can the government take to improve the effectiveness of the Maritime Highway programme?

This report was prepared to evaluate the impact of the implementation of the Maritime Highway programme on the regional economy in the eastern region. This study seeks to answer the question of whether there has been a positive change in (i) price disparities between the Western Indonesia Region and the Eastern Indonesia Region, (ii) the level of household consumption in the Eastern Indonesia Region, and (iii) the economic activities of the Eastern Indonesia Region after the Maritime Highway programme started operating. In addition, this report also outlines measures that can be taken by the government to improve the effectiveness of the Maritime Highway in order to accelerate development in the Eastern Indonesia Region.

Since the Maritime Highway programme was launched in 2015:

- There has been a downwards trend in the monthly inflation rate in several major cities in the Eastern Indonesia Region.
- There has been varied impact on decreasing price disparities, both between the Western Indonesia Region and Eastern Indonesia Region, coastal areas, and the hinterland, as well as for each commodity.
- The impact on increasing household consumption for selected commodities in the Eastern Indonesia Region has remained limited.
- Economic activity in coastal areas has increased, yet the effect diminishes as the distance from the port increases.
Overall, the impact of the Maritime Highway programme on improving public welfare in the Eastern Indonesia Region is still limited. The programme has only decreased the cost of shipping goods between islands at rates that are 30%–50% cheaper than commercial vessels. Why has the Maritime Highway not had a significant impact on reducing price disparities?

This report identifies several issues that often arise in the process of shipping goods from the point of production to the final consumer. First, the component of logistics costs on land – both from the point of production to the port of origin (door to port) and from the port of destination to the point of consumption (port to door) – remains high. This cost component includes land trucking costs, document fees, escorting fees, and terminal handling charges. Second, the performance of loading and unloading services at ports continues to be suboptimal due to the low productivity and efficiency of dock labourers at both origin and destination ports. Third, in the port-to-port phase, the Maritime Highway designated lines remain long, becoming a disincentive for private shipping to be involved in the programme. The effectiveness of the Maritime Highway has also been hampered by irregular schedules for ship arrivals, lack of transparency regarding quotas and loading priorities, and return loads that are frequently empty. Fourth, a less competitive market structure also encourages high prices in destination areas, especially in the hinterland.

In order to raise the effectiveness of the Maritime Highway programme in the future, there are several measures that the government can take:

- Modernise ports to encourage increased loading and unloading efficiency at ports
- Reorganise routes and designated lines to ensure regular and orderly ship arrivals
- Build capacity on governance and supervising goods to increase the transparency of quotas and loading priorities
- Shift the system of subsidies from being based on commodities to general subsidies
- Develop new region-based economic activity centres in the Eastern Indonesia Region to reduce the problem of empty containers returning
- Develop a more integrated national system for logistics by prioritising the role of the Maritime Highway as a catalyst for the development of the Eastern Indonesia Region