Chapter 1

Introduction
Background of the Study and Current Policy Context

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Chapter 1

Introduction – Background of the Study and Current Policy Context

Indonesia is the largest archipelagic country in the world where two-thirds of the entire territory is sea. This geographical condition makes maritime transport one of the economic arteries that the Indonesian government must seriously consider. With the number of islands reaching 16,056, transportation of goods and people using sea lanes has become crucial to improving connectivity between regions in Indonesia, particularly for the outermost and remote areas. In 2017, sea transport played a role in mobilising around 500,000 tonnes of goods and 21 million people, both domestically and internationally.

At present, domestic sea transport continues to be concentrated in western Indonesia or the Western Indonesia Region.[1] Table 1.1 shows the flow of goods and passenger traffic for domestic and international sea transport in 25 strategic Indonesian ports in 2017 as reported by the 2017 Sea Transportation Statistics. The volume of goods loaded and unloaded at strategic ports located in the Eastern Indonesia Region is much lower than that of strategic ports in the Western Indonesia Region.[2]

Table 1.1. Volume of Goods and Passenger Traffic in Strategic Ports, Eastern Indonesia Region

Port	Flow of Goods		Passenger Traffic	
	Loaded ('000 tonnes)	Unloaded ('000 tonnes)	Arrivals (people)	Departures (people)
Tenau (East Nusa Tenggara)	68	288	175,259	168,738
Bitung (North Sulawesi)	2,709	10,201	51,629	38,192
Makassar (South Sulawesi)	4,614	6,842	300,844	316,189
Ambon (Maluku)	532	1,729	236,280	245,902
Sorong (West Papua)	186	655	154,503	137,297
Jayapura (Papua)	393	1,657	112,477	105,680
Biak (Papua)	183	594	65,772	65,799
Total	8,685	21,966	1,096,764	1,077,797
Total at 25 Strategic Ports	199,593	261,990	7,963,793	8,088,144

Source: Data taken and adapted from Statistics Indonesia (2018).

The low volume of goods through strategic ports in the Eastern Indonesia Region indicates that the intensity of economic activity in eastern Indonesia is still not as high in western Indonesia. Economic

[1] Goods in this context include containers and non-containers.

[2] In this report, the Eastern Indonesia Region covers all provinces in Sulawesi, the Maluku Islands, and Nusa Tenggara, in addition to Bali and Papua.

sectors in eastern Indonesia have not been able to produce a final product that is attractive enough to generate trading activities in the region. This phenomenon is commonly known as 'ships follow the trade' in the shipping world, namely that ships and ports would not exist without the prior existence of trade.

The economic disparity between the two halves of Indonesia is also confirmed by data compiled by the National Aeronautics and Space Administration (NASA) on night-time light distribution. Night-time light intensity is generally used as a reference to detect economic activity in certain areas, in which there tends to be better economic development and more expansive urbanisation in areas with higher light intensity. As seen in Figure 1.1, higher night-time light intensiy is found in western Indonesia, especially on the island of Java. Meanwhile, the majority of the Eastern Indonesia Region remains mired in darkness at night. The highest night-time light intensity in the Eastern Indonesia Region is found in parts of South Sulawesi.

Figure 1.1. Night-time Light Distribution, Indonesia

Source: Light distribution data from NASA representing night-time light distribution on 31 December 2016.

In addition to the shipping frequency being low, the inadequate production capacity in eastern Indonesia prompts significant price disparities between western and eastern Indonesia. These disparities are evident when comparing the consumer price index data in port cities in the Western Indonesia Region and the Eastern Indonesia Region.

The development of the maritime sector based on the idea of ships promoting trade may be one option for realising equitable development between western and eastern Indonesia. The concept of ships promoting trade prioritises the procurement of port infrastructure and the opening of shipping lanes to create new trade routes, reduce logistics costs, and accelerate economic growth in the Eastern Indonesia Region. A concrete form of the concept in practice is the opening of the Maritime Highway, which was initiated in 2015. The Maritime Highway concept emphasised by President Jokowi is the strengthening of shipping lanes focused on eastern Indonesia. The increasing number of shipping lanes to eastern Indonesia are expected to improve the distribution of logistics to remote, outermost, and disadvantaged areas. In addition, the Maritime Highway is also expected to enable the facilitation of commercial access from south Pacific countries to countries in East Asia.

This study seeks to investigate the impact of the Maritime Highway on welfare and price levels in areas located in eastern Indonesia, and provide the insights by addressing the following issues:

- Evaluating the connectivity improvements in remote areas to support the acceleration of economic growth in the Eastern Indonesia Region during the implementation of the Maritime Highway programme.
- Estimating the impact of the implementation of the Maritime Highway programme on reducing price level disparities and public welfare in the Eastern Indonesia Region.
- Formulating policy recommendations that may improve the Maritime Highway programme, especially in relation to programme sustainability without government subsidies.