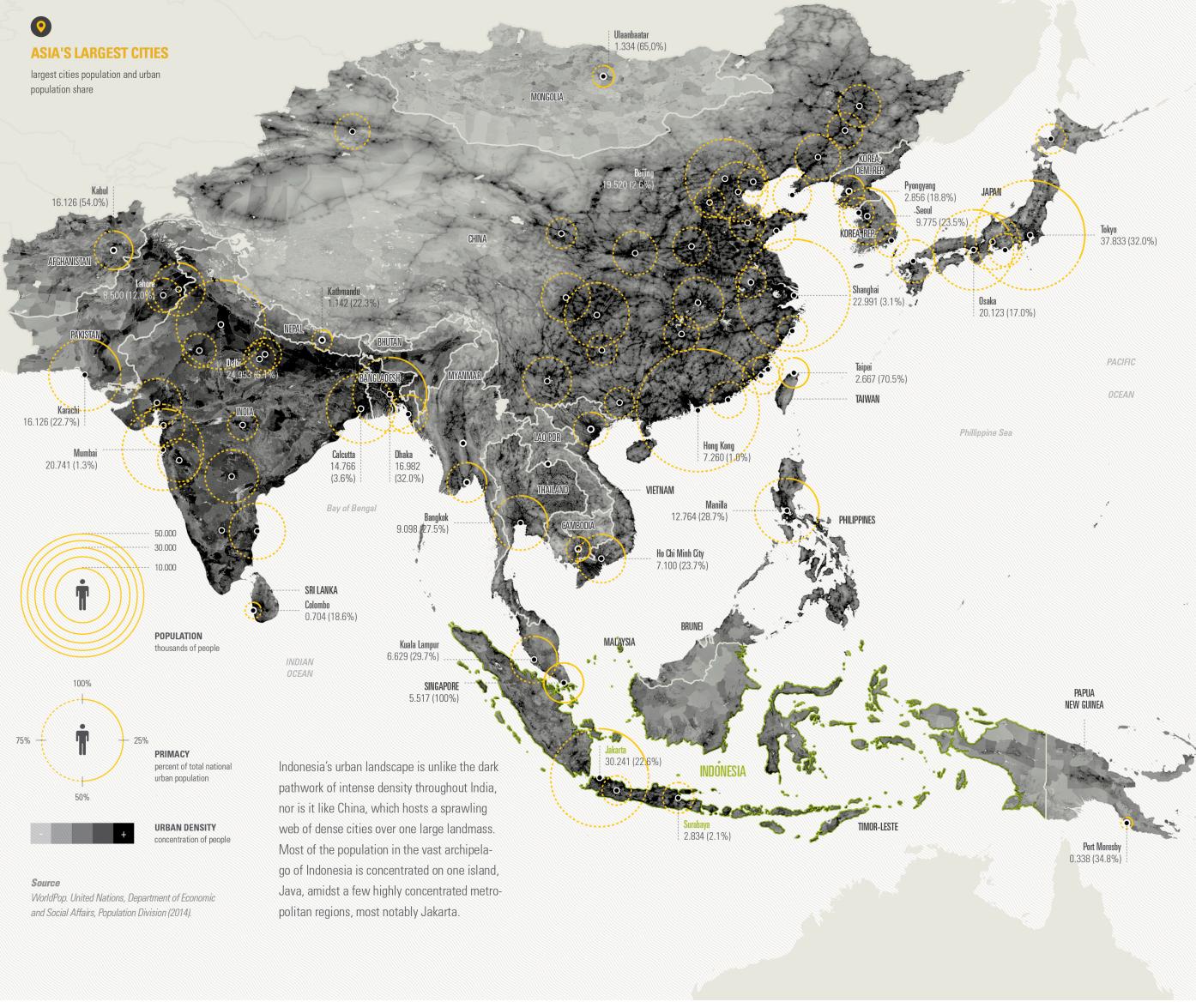


01. INDONESIA'S GLOBAL CONTEXT

INDONESIA'S URBAN LANDSCAPE DIFFERS FROM THOSE OF NEIGHBORING COUNTRIES

ASIA'S LARGEST CITIES

largest cities population and urban population share



Indonesia's urban landscape is unlike the dark pathwork of intense density throughout India, nor is it like China, which hosts a sprawling web of dense cities over one large landmass. Most of the population in the vast archipelago of Indonesia is concentrated on one island, Java, amidst a few highly concentrated metropolitan regions, most notably Jakarta.

Indonesia is the
4th largest country
in the world

IN 2012

IN 2030

It was the

It is expected to be the

16th

7th

largest economy

largest economy

52%

71%

of the population lived
in cities producing

will live in cities
and produce

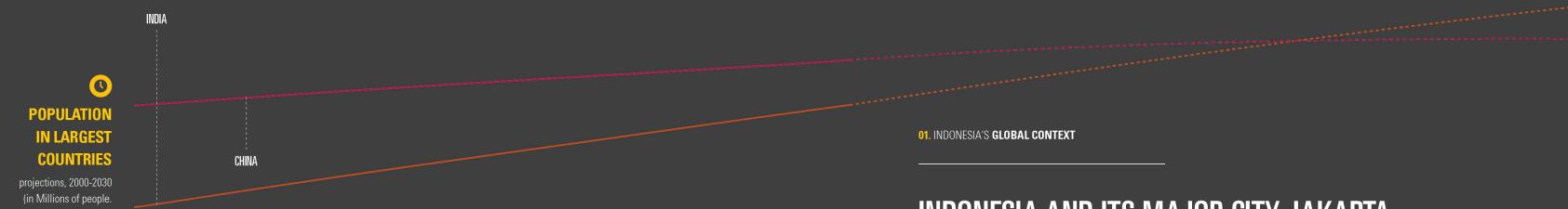
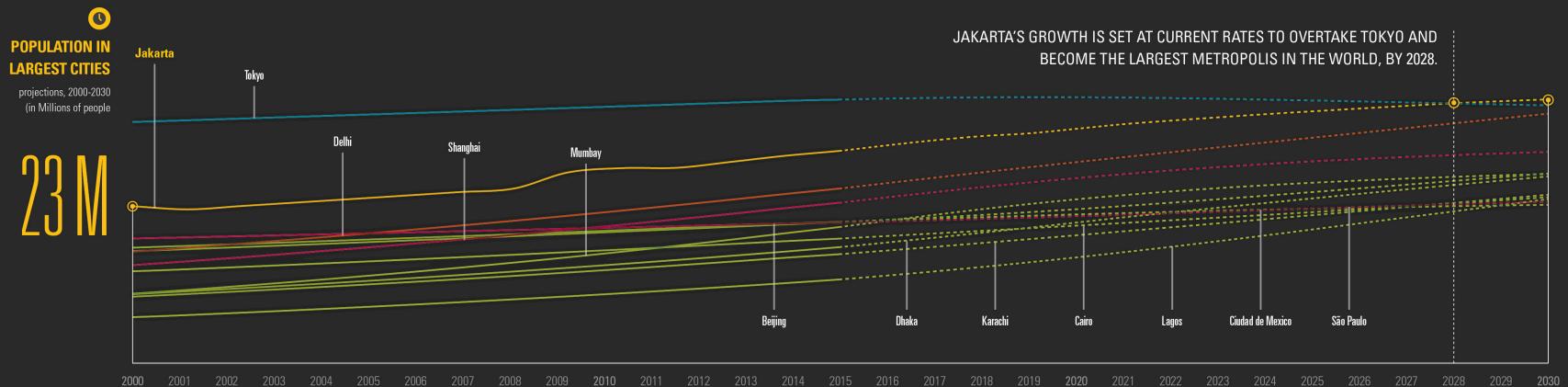
74%

86%

of the GDP in the country.

of the country's GDP

Indonesia's path to development has taken a different, slower route than the other large countries of the world. Historically, its rapid urban growth has been concentrated in the island of Java. Indonesia's rate of urbanization matches levels seen in the rapidly developing 'Asian Tigers' similarly constrained by, but strategically located near, water bodies, such as Hong Kong, Korea and Taiwan, which transformed their economy over the last century by leveraging the agglomeration economies evident in their urban spaces. The discrepancy in the economic approach of Indonesia and its peer countries in East Asia is closely related to the nature of Indonesia's urban landscape, the evolving relation between rural and urban populations, shifting developments in policy and governmental decisions, and its socio-cultural identity as a nation.



INDONESIA AND ITS MAJOR CITY JAKARTA, WILL BECOME INCREASINGLY GLOBALLY SIGNIFICANT

Indonesia's major urban area, Jakarta, which makes up a 11% share of the country's population, figures prominently internationally, servicing a population on par with other megacities like Shanghai, Delhi and Tokyo. In fact, if Jakarta's current levels of growth continue, it

is expected to overtake Tokyo and become the largest metropolis in the World by 2028.⁵

Other major cities operate as economic engines for their respective countries. As such, Jakarta will play a critical role in helping Indonesia achieve its stated target of a sustained 7% growth rate. However, as will be discussed

later, Indonesia's current national development policies are framed with the intention of moving development away from Jakarta.

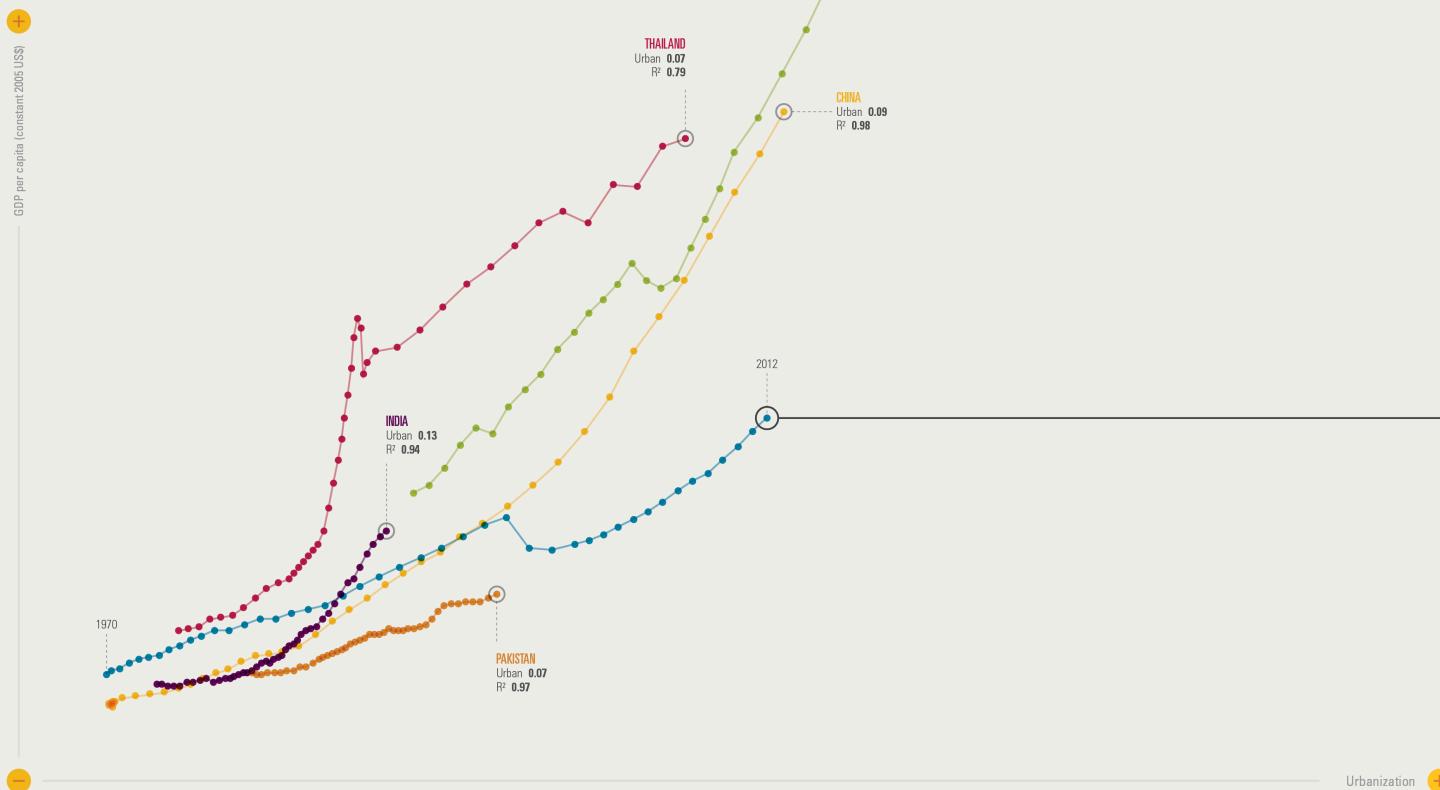
5. Pending



THE HIGHLY PRODUCTIVE MAJOR INDONESIAN CITIES HAVE BECOME MAGNETS FOR THE COUNTRY'S POPULATION

From 1970 to 2006, every 1% increase in urban population correlated with an average per capita GDP percentage increase of 13% for India, 10% for China, 8% for Vietnam, and 7% for Thailand. On the other hand, the multiplier effect of urbanization for Indonesia has

been less adamant, as a 1% increase in urbanization has only resulted in a 4% increase in per capita GDP.



URBANIZATION AND GDP PER CAPITA

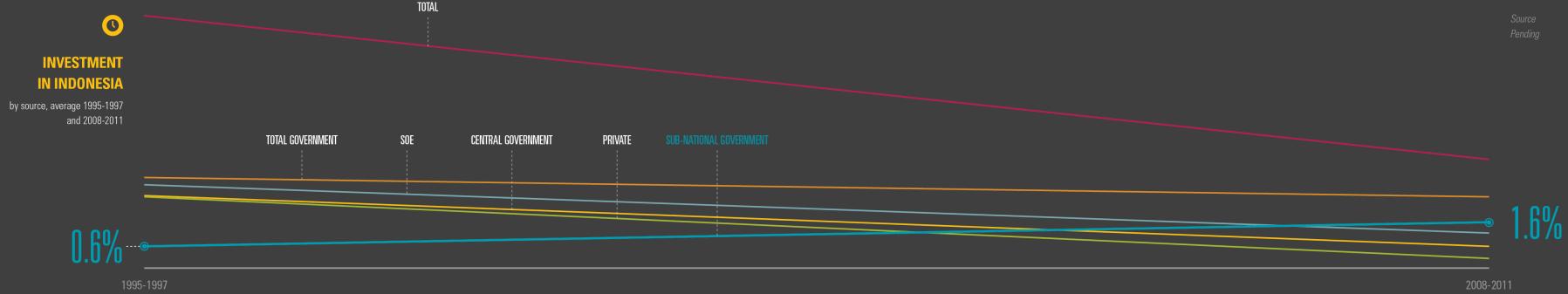
By country, 1970 - 2012.
Source
World Development Indicators; The World Bank

INDONESIA

URBAN COEFFICIENT

0.04

R²
0.95



03. INDONESIA'S INFRASTRUCTURE CRITIQUES

INVESTMENTS IN INFRASTRUCTURE ARE NOW THE RESPONSIBILITY OF LOCAL GOVERNMENTS, DESPITE THEIR LACK OF ACCESS TO CAPITAL AND THEIR LACK OF CAPACITY TO IMPLEMENT SUCH PROJECTS

The decentralization process that took place in the late 1990's aimed to shift power in order to give local authorities more accountability and mitigate corruption. Unfortunately, since local governments had less access to capital, expertise, and technical capacity for infrastructure planning, decentralization also led to 22% less investment

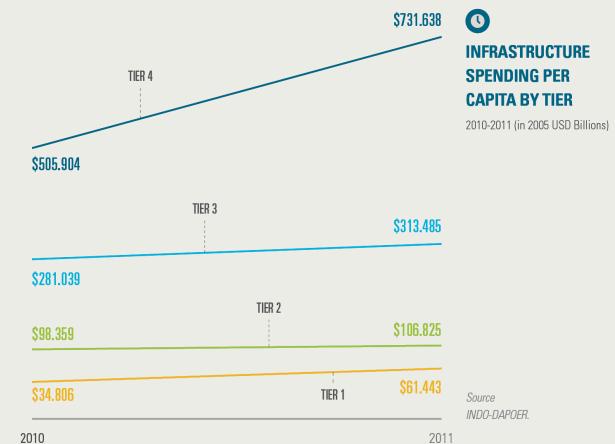
in infrastructure. Before the shift, sub-national governments accounted for roughly 25% percent of public investments in infrastructure; after the shift, they were directly accountable for roughly 65% of total public infrastructure investment expenditures.

Decentralization may have provided its cities more power to self-determine a bold new

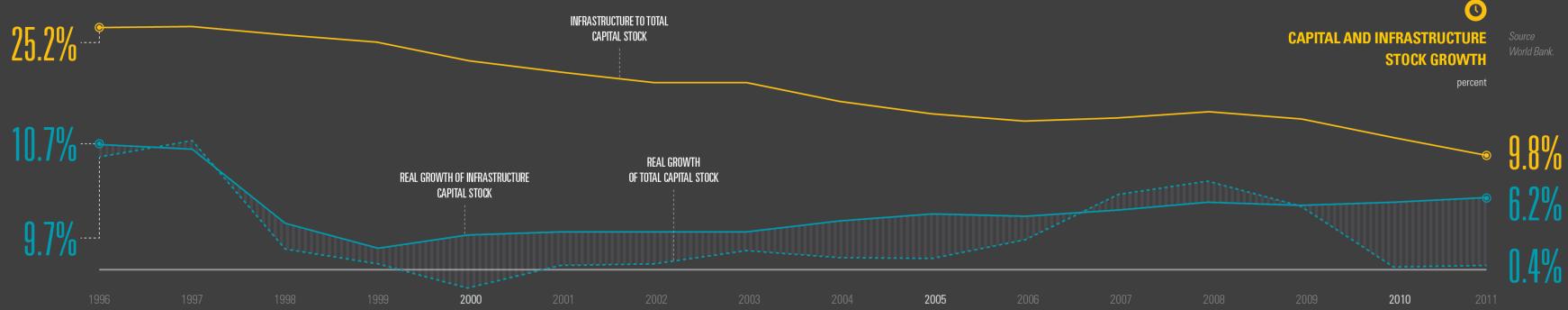
future, but to do so they need enabling infrastructure. More specifically, Indonesia's great cities will need the capacity and the financing to plan and implement the infrastructure needed to reap the economic benefits that urbanization can provide. Without it, large cities like Jakarta, Surabaya, Makassar and Medan will face diseconomies associated with urbaniza-

tion, notably increasingly greater levels of congestion, pollution, slums and dire consequences from natural disasters.

Investments in infrastructure have gone to small cities over large cities, where the capacity to make use of financing is limited and where the impact of infrastructure will affect a smaller proportion of people. This is the result of an effort to decentralize growth throughout Indonesia, by prioritizing central transfers for infrastructure investments for smaller cities. As a result, city districts with populations of less than 500k have 3.3 times the level of public investments in infrastructure per capita as compared to larger cities, on average.



3.2



04. INDONESIA'S DISECONOMIES OF SCALE

INDONESIA IS THE ONLY COUNTRY WHOSE MAJOR URBAN AGGLOMERATION IS LOSING PRIMACY

INDONESIA'S MAIN CITIES BY TIER

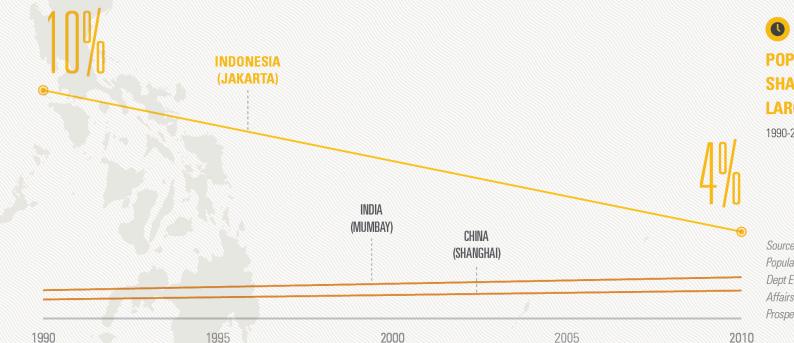
Source
PUMA, 2015.

- Tier 1 cities
- Tier 2 cities
- Tier 3 cities
- Tier 4 cities

URBAN DENSITY
concentration of people

The efficiencies provided by agglomeration economies increase with scale, and as such, larger cities tend to grow at an exponentially faster rate. While Jakarta's growth reflected this dynamic during most of Indonesia's history, since 2000 it is the only major Asian economic capital that is not increasing in terms of its share of the country's population over time, or

'primacy'. In fact, second and third tier cities are growing at a much faster rate. The growth of second tier cities stems in part from explicit decentralization policies of the federal government

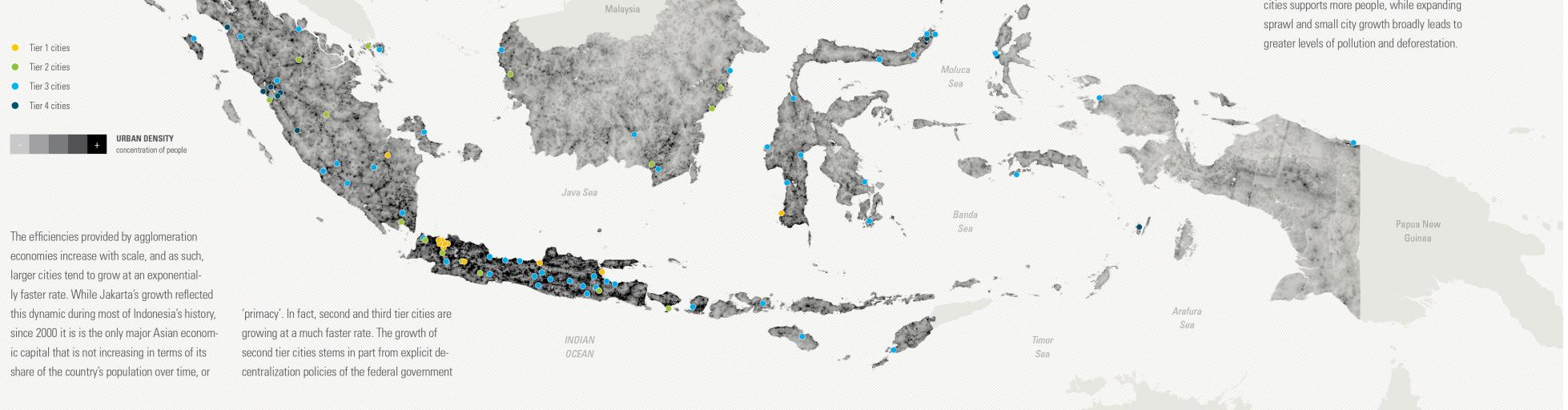


POPULATION SHARE OF LARGEST CITY
1990-2010

Source
Population Division, UN Dept Economic and Social Affairs World Urbanization Prospects, 2009.

as well as the dysfunction that has come to define the first tier of cities of the country. Jakarta especially suffers from inadequate drainage

systems, acute traffic congestions, and other problems stemming from a general lack of infrastructure. Concentrating investment in large cities supports more people, while expanding sprawl and small city growth broadly leads to greater levels of pollution and deforestation.



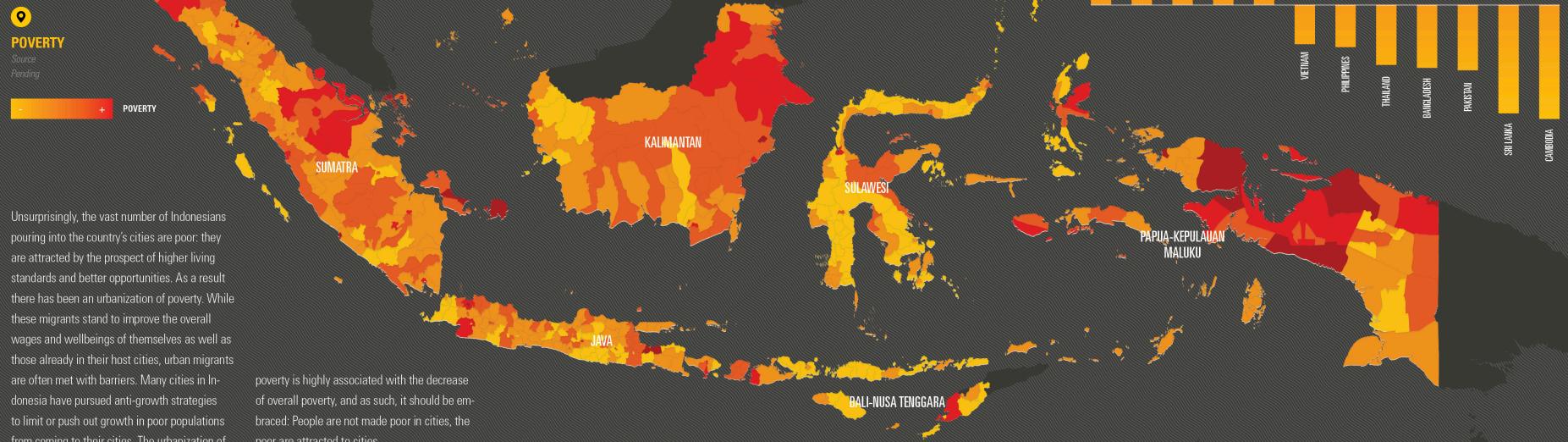
TIER 2 CITIES ARE GROWING THE FASTEST

POPULATION SHARE, AMONG KOTAS BY TIER

percent, 1990-2012
Source
WDI, 2014.

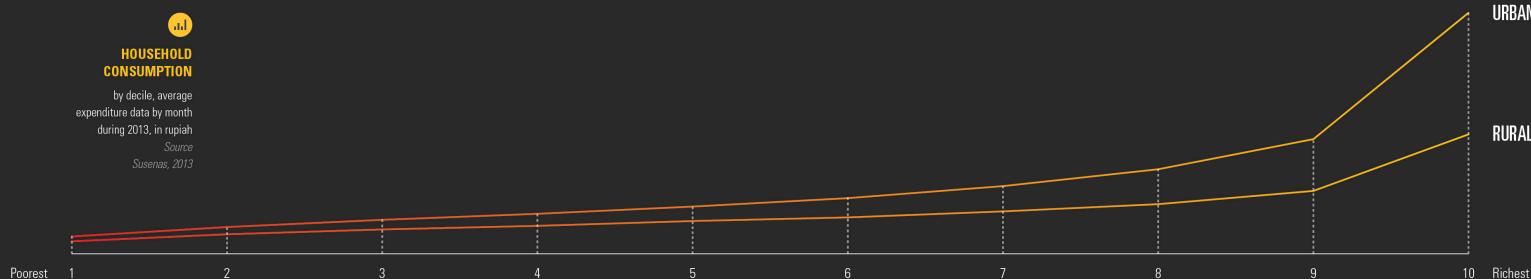
While second tier cities are benefiting from greater levels of growth, they too will experience the diseconomies of scale associated with urbanization if the appropriate infrastructure isn't invested in. This is already occurring in Denpasar, a second tier city in which the population growth rapidly outpaced the city's investments in urban infrastructure. The response has largely been to try to limit growth, rather than to accommodate for it.

THE LARGE MIGRATION OF POOR POPULATIONS TOWARDS INDONESIAN CITIES HAS LED TO AN URBANIZATION OF POVERTY



Unsurprisingly, the vast number of Indonesians pouring into the country's cities are poor: they are attracted by the prospect of higher living standards and better opportunities. As a result there has been an urbanization of poverty. While these migrants stand to improve the overall wages and wellbeings of themselves as well as those already in their host cities, urban migrants are often met with barriers. Many cities in Indonesia have pursued anti-growth strategies to limit or push out growth in poor populations from coming to their cities. The urbanization of

poverty is highly associated with the decrease of overall poverty, and as such, it should be embraced: People are not made poor in cities, the poor are attracted to cities.



The productivity gains from urbanization and the country's development have primarily gone to the existing wealthy class, especially to top 20% wealthiest Indonesians. The top 20% of the population consumes more than the bottom 70% of the population combined. In fact, Indonesia has one of the fastest rising rates of inequality in East Asia, as measured by the gini coefficient. The Gini coefficient for Indonesia rose dramatically from .29 in 1999 to .41 in 2012.¹⁷ During the same decade the growing and urbanizing economies of the Philippines, Vietnam, Thailand, and Cambodia decreased their levels of inequality.¹⁸

17. .41 GINI is comparable to the United States level of inequality - .38 is the global average

18. There are significant reasons to believe that the measures of inequality in Indonesia are underestimated. This is partly because the measure is of consumption, and not income or wealth. Further there is some concern that the ability to capture data on consumption among the highest income groups is limited by the capacity of national statistical agencies. Improvements in data capture could be partly why inequality appears to be growing so rapidly.