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COUNTRY REPORT

THE INDONESIAN CONSTRUCTION SECTOR

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1. EXECUTIVE SUMMARY

Economy of Indonesia is growing better since the economic turmoil 10 Years ago. In 2009, GDP Per Capita At Current Market Prices is IDR 24.3 juta (USD 2,590.1) and GNP Per Capita At Current Market Prices IDR 23.4 or USD 2,499.5. The economic growth is 4.5%. The inflation rate from January to July 2010 is 4.02%. The construction sector contribution to GDP decrease from 7.31% in 2008 to 7.1%. The contribution of construction sector to GDP is 555 Trillion IDR (2009) based on current price and 140.2 Trillion IDR (2009) under constant price (2000). The next coming years, it is expected to account more than 9%. This expectation is applicable since Indonesia is known as the second largest construction market up to 2010 in Asia after China (ENR Singapore, 1997). The market covers infrastructure and property investments both under government spending and or private investment as well public private partnership. For the fiscal year 2010, the government spending for infrastructure provision accounts for almost 108 Trillion IDR and the next coming year account for 126 Trillion IDR (2011) in which public work projects covering road networks, water resources and human settlement will get the public funding almost 56 Trillion IDR (2011). It was estimated that Indonesia needs almost 1,500 Trillion IDR for infrastructure procurements (Bappenas, 2005).

2. MACRO ECONOMY REVIEW & OUTLOOK

2.1 Overview of National Economy

The Indonesian economy is growing significantly since it was hit by Asia economic crisis in 1997. Now it is considered to be in stable state and to growth at 6.06% (2008) but it slightly decreases at 4.5% (2009) due to affected by the global financial crisis. During 2006-2009, economics of Indonesia were increased by 5.5 percent (2006), 6.3 percent (2007), 6.0 percent (2008) and 4.5 percent (2009). Meanwhile, in the first semester in 2010 compare with second semester in 2009, grew by 2.1 percent and if it is compared with first semester in 2009 grew by 5.9 percent (CBS, 2010). Furthermore, the value of GDP at 2000 constant prices in 2006 was IDR 1,847.1 trillion and increased in the year 2009 to become IDR 2,177.0 trillion. In the first semester in 2010 GDP at constant prices was IDR 1,131.8 trillion.. The value of GDP at current prices in the year 2006 was IDR 3,339.2 trillion and always increased in the next year to become IDR 5,613.4 trillion in the year 2009, meanwhile, in the first semester in 2009 GDP at current prices was IDR 3,068.6 trillion (CBS, 2010). Other component of GDP which have significant contribution to GDP is Gross Fixed Capital Formation (GFCF) and export of goods and services. The growth of GFCF was 24.1 percent in 2006 and increased higher became 31.1 percent in 2009 and 31.4 percent in first semester 2010. (CBS, 2010)

The business trend index in fourth quarter of 2006 was 107.3 showing that business condition in general is better than third quarter of 2006. This business condition is growing better since increased revenue due to increasing production capacity and number of working time. Higher business revenue occurs in the finance sector, property and services. The higher increased workforce occurs in the construction sector. The highest business index is 115.35 occurring in the construction sector. It shows that this sector is the most increased sector compared to other sectors. However, the agriculture sector has decreased its index (95.12%). The business trend index during first quarter of 2007 was

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expected about 108.79. During 2007, business condition is expecting higher than 2006 and in this year, construction sector will have higher index.

Consumer trend index across greater Jakarta during last quarter of 2006 was 106.96 showing economic condition of consumers are in better condition. Increased value of consumer trend index is due to increasing household income and consumption of main commodities. Higher consumption occurs in the housing expenses (energy and water), transportation, and education, while recreation expenditure decreased. It was expected that economic condition of consumers during 2007 is much better than 2006.

2.2 Main Economic Indicators

The Indonesian economy is in a stable shape towards increased growth. The Indonesian gross domestic product for 2004 in constant 2000 real prices was RP. 1511 Trillion which represents a 1.03% increase on the previous year. To January 2005 the gross domestic product grew at an annual rate of 5.13% in Central Bureau of Statistics data (CBS, Economic Indicators, January 2005). During the same period the consumer price index standing at 118.53 in January 2005 grew by only 1.43 points against 0.57 the previous year (2002=100). The interest on 90-day bank deposit bills was 6.65% in October and the 10-year Treasury Bonds returned 8.31%. Rising cost of materials including that for crude oil leading to an increase in inflation from 5.06% in 2003 to 6.4% in 2004 and the cyclical Rupiah devaluation of 20% against the US\$ has forced the government to instigate minimization of energy consumption, spending and subsidy provisions nationwide. The unemployment rate however, increased from 15% in 2003 to 16% in 2004. Despite current uncertainties about the international economy and the downturn in balance of payments from US\$28.6 Billion in 2003 to 23.5 Billion in 2004, the rate of economic growth is forecast to continue to the end of 2006 at 6.5%, with the domestic economy proving to be relatively resistant to adverse global economic conditions.

The Indonesian economy continued to grow slowly between 1999-2004 after the Asia Economic crisis had affected all sectors in the regions since 1997, but will obviously be affected by what occurs in the global market. Although difficult to predict, the indications for the Indonesian economy are positive for the years after 2004 judging from the information shown in Table 1 This table shows that the Indonesian economy is getting better.

Table 1. Main Economic Indicators

Indicators	2005	2006	2007	2008	2009	2010 (forecast)
Economic Growth (%)	5,7	5.50	6.28	6.06	4.5	6
Construction Growth (%)	9.90	9.00	10.40	10.50	7.1	7-8
Inflation (%)	17.11	6.60	6.59	11.06	6.5-7,5	5,67
Foreign Exchange (Rp/US\$)	9,830	9,167	9,300	10,895	10,150	8,950
CBC-3 Months (%)	12.83	9.75	8.50	8.67	7.36	7.25
Oil Price (US\$/barrel)	41.00	64.00	94.00	99.40	71,17	85

Source: Bank Indonesia, Finance Department of RI, www.oilprice.net (2009) Updated

According to the latest CBS the real gross domestic product (GDP) expanded by 6,06% (2008), indicating that the economy is picking up, as the corresponding value for the previous year was 6,28% (2007). In the past the Indonesian economy was relatively resilient against minor adverse international economic conditions. The control exercised over the relatively long recovery period since the economic crisis of 1997-2000, through fundamental economic remedies, has provided a good basis for managing the present uncertainties thereby indicating opportunity for gradual expansion and continuing

sustained growth in the key sectors of the economy. These include in particular the construction, agriculture, manufacturing and services sectors. In terms of consumption and investment (not in the table), for the first half of 2005 compared to the first half of 2004, retail sales at current prices increased by 16%, new capital expenditures by 27% and new government expenditures were up 10%.

Table 2. Macro Economic Development Indicators

	(1,000,000 IDR)					
	2005	2006	2007	2008	2009	2010 (forecast)
GDP at constan prices 2000 Rp. Billion	1,750,815	1,847,127	1,963,092	2,082,104	2,165,388	2,286,650
GDP at current market price	2,774,281	3,339,217	3,949,321	4,954,029	5,152,190	5,440,713
GDP growth (%)	5,7	5.50	6.28	6.06	4.00	5,6
GDP growth (%) for agriculture, forestry and fishery sector	2.72	3.36	3.43	4.77	3.57	2,9
GDP growth (%) for manufacturing sector	4.60	4.59	4.67	3.66	4.38	3,6
GDP growth (%) for services sector	5.16	6.16	6.60	6.45	6.09	4,6
GDP growth (%) for mining sector	3.20	1.70	2.02	0.51	1.86	3,5
GDP growth (%) for construction sector	7.54	8.34	8.61	7.31	7.95	7,3
GDP growth (%) Financial, Ownership and Business Services	6.70	5.47	7.99	8.24	7.10	5,5
GDP growth (%)Transportation and Communication	12.76	14.23	14.04	16.69	14.43	11,9
GDP growth (%)Trade, Hotel and Restaurant	8.30	6.42	8.41	7.23	7.59	9,3
GDP growth (%)Electricity, Gas and Water Supply	6.30	5.76	10.33	10.92	8.33	7,2
Population (number)	219,852	222,747	225,642	227,779	230,633	237,556
Population growth rate (%)	1.79	1.32	1.30	0.95	1.25	2.9
Labour force (number)	106,280	106,390	109,940	111,879	113,852	116,000
Labour force growth rate (%)	1.59	0.10	3.34	1.76	1.76	1,9
Unemployment rate	10,854,254	11,104,693	10,547,917	9,427,590	9,258,964	8,595,600
Unemployment growth rate (%)	5.88	2.31	(5.01)	(10.62)	(1.79)	(7.16)
Inflation rate	10.40	13.33	6.40	10.31	6.02	5.67
Short term interest rate (%)	16.83	17.58	16.13	16.62	17.12	17.56
Long term interest rate (%)	16.23	15.07	13.00	13.90	14.87	15.18
Changes in Consumer Price Index (2007=100)	141.50	148.34	155.58	170.18	186.16	118.37
Average change against USD\$	9,830	9,020	9,300	10,895	10,150	8,950

Source: CBS (2009) & Central Bank of Indonesia (2009)

3. OVERVIEW OF THE CONSTRUCTION INDUSTRY

4.1 Construction Investment

The construction value completed can be seen in Tabel 3. The Government of Indonesia has expressed her desire to speed up infrastructure development in order to accelerate economic growth to levels of 7.8% through increasing the ratio of Investment to GDP to 28.4% from 19.6%, opening new job opportunities to reduce unemployment and poverty alleviation to 5.1% and 8.2%. The above investment driven development plan can be seen in Table 4 which depicts infrastructure demand between 2005-2009 to be Rp.145 Trillion or US\$15.825 Billion. A more accurate picture can be obtained in Table 5 which illustrates for construction investment and maintenance demand in the Department of Public Works to total Rp.73.59 Trillion; broken into Bina Marga (Roads and Bridges) Rp.21.27 Trillion, Sumber Day Air (Water Resources) Rp.34.53 Trillion, Cipta Karya (Human Settlements) Rp.14.60 Trillion, and Other Public Works Rp.3.18 Trillion.

Table 3. Value of Construction Completed by Type of Construction
2004 – 2009 Based on Contract Price

(1,000,000 IDR)

TYPE OF CONSTRUCTION		2004	2005	2006	2007	2008	2009*
1	Residential	4,795,995	7,495,904	9,305,172	9,305,172	11,263,484	13,633,931
2	Non residential	18,581,659	20,701,163	22,069,558	23,528,407	29,613,637	37,272,710
3	Electrical installation	3,825,819	3,174,567	3,363,393	3,563,451	3,775,409	3,999,974
4	Gas and Water supply installation	114,635	431,511	371,544	319,911	275,453	237,174
5	Sanitary installation	69,988	206,000	194,926	184,447	296,659	477,137
6	Foundation	353,875	1,155,892	850,095	625,198	1,127,658	2,033,936
7	Sound system, AC, lift, etc	2,038,887	1,090,505	1,268,817	1,476,285	1,261,856	1,078,573
8	Water supply network	447,877	487,919	512,374	538,055	681,455	863,073
9	Oil and Gas pipe network	759,422	650,974	648,546	646,127	1,031,995	1,648,304
10	Electricity network	1,559,105	439,088	1,027,867	2,406,148	3,653,882	5,548,641
11	Road and bridge works	15,083,795	18,844,750	19,897,065	21,008,143	25,345,791	30,579,053
12	Irrigation/drainage	4,975,447	3,845,006	4,553,470	5,392,472	6,999,582	9,085,657
13	Electric power supply and Telecommunication Network	20,973	2,823,137	1,137,230	458,105	218,031	103,770
14	Construction or improvement of airport, harbor, bus station, etc	1,440,669	1,688,968	1,598,572	1,513,014	1,112,716	818,325
15	Other construction works	1,936,391	4,282,534	5,144,678	6,180,386	7,827,060	9,912,468
	TOTAL	56,004,537	67,317,918	71,943,309	79,391,287	94,484,668	117,292,725

Source: CBS (2009)

Table 4. Construction investment plan (2008 – 2009)

MODEL PROJECTS	USD \$Million
Central Java Coal Fired Power Plant 2 x 600 MW	1,200
Pasuruan Combined Cycle Power Plant 1 x 500 MW	275
Medan Kuala Namu Tol Road 60 kms	142
Solo Kartosono Tol Road 165 kms	928
Margagiri Ferry Terminal 0.9Million Vehicles, 1.2 Million Passengers	97
Teluk Lamong Seaport (Tanjung Perak Port Expansion)	275
Bandung Water Supply Project	26
Dumai Water Supply Project	44
Tangerang Water Supply Project	37
Palapa Ring Telecommunications Projects 7 ring FO 30000 kms	1,500
Total	4,524

Table 5. Public works investment plan (2008 – 2009) (USD Million)

Public Works	Strategic Plan 2008	Indicative Investment 2008	Strategic Plan 2009	Proposed Investment 2009
Road Networks	8.80	10.02	10.30	11.25
Water Resources	13.20	15.80	15.10	18.73
Human Settlement	5.60	7.13	6.49	7.47
Others	0.88	1.42	0.95	1.77
TOTAL	28.48	34.37	32.84	39.22

4.2 Construction Companies

According to Law No. 18/1999, construction company consists of consulting and contracting company. Consulting company can be designer and also supervision engineer. Under a new guideline for construction services certification and registration, the number of certified consulting companies was 4,389 firms consisting of 3,280 firms (G1-G2), 824 firms (G3) and 285 firms (G4) and registered by National Board of Construction Services Development (NBCSD) in 2008. In the same year, the number of certified contracting companies was 112,071 firms registered by NBCSD 2008. These contracting companies consist of G1 up to G7 qualification firms. The number of small contracting companies (G1-G3) was 101,293 firms (90%). The number of medium contracting companies (G4-G5) was 10,083 firms (9%) and the big contracting company (G6-G7) is only 695 firms (1%). Of the figure, 263 Contractors already hold ISO-9000.

The Number of foreign construction companies has been increasing since a couple of years ago. In this year, the number of foreign contracting companies in Indonesia is 79 firms mostly coming from Japan and it is about 67 consulting companies mostly also coming from Japan. In the period of January to July 2007, 19 foreign contractors and 9 consulting firms were endorsed by the government.

4.3 Construction Employees and Workforce

Total number of registered engineers is about 106,283 professional engineers (2008). The following table 6 shows the distribution of certificate held by professional engineers according to their expertise.

Table 6 The Number of Professional Engineer

ENGINEER	QUALIFICATION				TOTAL
	BEGINNER	LOWER MIDDLE	MIDDLE	HIGHER	
Electrical Engineer	165	5,225	3,869	433	9,692
Landscaping Designer	327	4,423	1,099	213	6,062
Civil Engineer	4,841	58,368	18,182	1,917	83,308
Mechanical Engineer	62	2,282	710	74	3,128
Other	37	253	438	71	799
Architecture	265	1,268	1,497	264	3,294
Total	5,697	71,819	25,795	2,972	106,283

Source: NCSDB (2008). Note: a professional engineer may hold more than one certificate of competence.

The number of workforce working in the construction sector is more than 5 million people in average. The following table 7 shows annual number of construction workers.

Table 7 The number of construction workforce

Year	2004	2005	2006	2007	2008	2009
Construction Labour	4,540,102	4,417,087	4,697,354	5,252,581	5,547,324	5,858,606

Source: CBS (2009)

4.4 Construction Productivity

Productivity in construction varies according to many factors. Current research findings (Wuryanti, 2005) on productivity measurement show different level of productivity in construction works under observation. The following table 8 figures out some findings from productivity analysis of 4 composite columns of reinforce concrete.

Table 8 Some findings of productivity analysis

No	Construction Works	Unit	Man-Minute
01	Steel cutting for reinforce concrete	M ³	21.90
02	Steel fixing for reinforce concrete	M ³	28.50
03	Concreting for sloof foundation	M ³	16.56
04	Formwork dismantling	M ³	4.10
05	Soil stabilisation under floor	M ²	36.10
06	Concrete work	M ³	17.11

Source: Wuryanti (2005)

4.5 Construction Cost

Indonesia is a large country with high diversity. It is very difficult to get a standard figure of construction cost across archipelago. In Jakarta, skill worker may have 100,000 rupiahs daily wage while in other regions such as Yogyakarta only 40,000 rupiahs. It is similar to natural material price such as sand and stone. In Central Java where sand and cobble stone are easier to get, the cost of sand is roughly 70,000 up to 90,000 rupiahs for 1 m³. It is quite common to buy a truck of sand which is about 2.5 – 3.5 m³ will cost about 300,000 up to 350,000 rupiahs.

Table 9. Indices of Permanent Workers, Mandays, Wages & Salaries and Value of Construction Sector 2004-2008(Quart.II)

Year and Quarter	Permanent Workers	Mandays	Wages & Salaries	Value of Construction
(1)	(2)	(3)	(4)	(5)
2004				
Qrt I	97.77	94.38	94.27	95.36
Qrt II	96.06	92.78	94.5	87.24
Qrt III	100.57	106.77	107.03	106.47
Qrt IV	99.29	104.66	102	104.08
2005				
Qrt I	104.75	107.72	108.52	110.85
Qrt II	110.21	109.19	111.53	115.23
Qrt III	102.77	108.71	109.54	114.01
Qrt IV	100.38	110.48	110.46	111.27
2006				
Qrt I	108.27	107.83	110.82	110.01
Qrt II	108.44	105.31	110.8	110.63
Qrt III	100.58	103.74	103.84	105.97
Qrt IV	100.46	112.14	115.97	113.09
2007				
Qrt I	101.59	98.28	97.54	99.92
Qrt II	100.77	100.07	101.10	101.37
Qrt III	102.13	108.57	111.75	112.51
Qrt IV	102.67	107.62	108.80	109.02
2008				
Qrt I	101.99	110.78	115.02	111.96
Qrt II	103.92	109.71	113.35	113.51

Source: CBS (2009)

Table 10. Construction Material Prices (Feb 2009)

PASIR + Batu		
Sandclayey for Embankment (per m3)	Rp	175.000
Soil for Embankment (per m3)	Rp	130.000
Sand for Bricklayer(per m3)	Rp	145.000
Sand for Masonry (per m3)	Rp	150.000
Sand for Concrete (per m3)	Rp	195.000
White Sand Bangka (per m3)	Rp	175.000
White Sand Rangkas (per m3)	Rp	170.000
Sandy Gravel (per m3)	Rp	110.000
Gravel 1/2 (per m3)	Rp	150.000
Gravel 3/4 (per m3)	Rp	165.000
Fly Ash (per m3)	Rp	145.000
Boulder (per m3)	Rp	135.000
Sand with gravel (per m3)	Rp	135.000
Biscos (per m3)	Rp	135.000
Gravel (per m3)	Rp	210.000
Stone (per m3)	Rp	130.000
Pressed Brick (Unit)	Rp	413
Normal Brick (Unit)	Rp	303
CEMENT		
Cement by Cibinong (kujang) (50 kg)	Rp	46.000
Cement by Tiga Roda (50 kg)	Rp	46.000
White Cement by Tiga Roda (40 kg)	Rp	62.500
Cement Gresik (50 kg)	Rp	43.550
Cement by Holcim	Rp	44.850
CONCRETE STEEL		
Diameter 6mm (12m)	Rp	21.000
Diameter 8mm (12m)	Rp	32.000
Diameter 10mm (12m)	Rp	49.000
Diameter 12mm (12m)	Rp	64.000
Diameter 16mm (12m)	Rp	110.000

Source: www.duniarumah.com, accessed Sept 2009

4.6 Export & Import of Construction Services

The Indonesian construction has been working overseas since 1980s, particularly led by State Owned Contracting Companies such as Waskita Karya, Adhi Karya, Hutama Karya in Asean and Middle East countries. Although, the construction export is not so progressive, it built confident level among construction companies working overseas. The number of construction companies doing export is still less than foreign companies coming in Indonesia.

Current figure shows that most foreign construction companies in Indonesia come from Japan, followed by US, China and then Europe. The companies come over through loan agreement policy and international competitive bidding particularly in the oil and gas sector, power plant projects and large infrastructure projects under loan or grant agreement.

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