CHAPTER IV
INDONESIA STRENGTHENS ITS PRESENCE IN AFRICA THROUGH ECONOMIC TIES

In this chapter the author explains how Indonesia strengthens its presence in Africa through economic ties started with explain the potential of a new market in Africa, following by the explanation of the potential of infrastructure investment in Africa.

A. The Potential of a New Market in Africa

1. Natural Resource in Africa

Around the world, countries with delayed economies continue to struggle to improve the standard of living, security, and welfare of their citizens. At this point, there are important questions about the role of natural resources. Natural resources are needed for economic growth (Field, 2001). Africa, as one of the continents in the world, has one-fifth of the territorial total of global land. There are many natural resources in Africa, and this is used in attracting investment and in the strategic interests of African countries. The development of natural resources is also utilized specifically for countries that have poor infrastructure, lack of skills and technology, and for countries affected by conflict. Natural resources in Africa, based on the division of its territory can be divided into three parts.

Nowadays, African leaders should realize that only African initiatives with clear commitment and great political intention will be able to maintain its security. Besides, through a commitment, Africa can also ensure stability, transparency, good governance, authentic economic development, and accessibility. If this is achieved, it will represent new opportunities, and it is really possible African history will turn around for the better (Abegunrin, 2009).

The first, consisting of northern and western regions for oil resources in Africa. The northern region includes Algeria, Libya, and Egypt. In another hand, the western regions are Nigeria, Angola, Ghana, and Equatorial Guinea. 10% of global oil reserves are estimated to exist in Africa today, even the information that there are still many oil fields that have not yet been developed or even found shows that if other countries want to invest in Africa with adequate investment, then making resources as a major power for Africa will continue.

Secondly, the South African region and the Democratic Republic of the Congo are the largest producers of metal minerals. Metal minerals that can be found include diamonds, cobalt, and chrome. South Africa in this regard is considered capable of leading Africa in terms of natural resource development. Apart from being home to the largest reserves of platinum, manganese, chrome, and gold in Africa, South Africa also has uranium, nickel, and coal as abundant resources.

The third region is the southeast region of Botswana, Zambia, Zimbabwe, and Madagascar which are known as the largest mineral belts. Many valuable resources can be found in the southeast region including nickel, bitumen coal, cobalt, copper, uranium, gold, and diamonds.

The importance of agriculture in the African economy reminds us that it is not surprising that countries with the fastest-growing agriculture sector also tend to have very fast GDP growth (Lele, 1992). 24% of Africa's GDP is derived from agricultural production, so agriculture has become a very important part of the African economy. Although the agricultural sector in Africa is still very underdeveloped, 20% of Africa's GDP is the result of agriculture-related industries such as processing, distribution, and retail. For plans for 2010 to 2030, Agribusiness in Africa is expected to grow from US$ 313 billion to US$ 1 trillion. It was stated by the World Bank itself that this would be a big and possible achievement.

Given that Africa is a large continent, and land that has not been cultivated globally or more than 200 million hectares of land is still in Africa. This is expected to be a form of African economic development in the field of agribusiness as a very important industry. Potential in terms of productivity level is also considered to be very low. A greater opportunity to get surplus production is by research and product development for the better. For example, the level of corn production is 20%, while soybean and palm oil is at 30%. This is a potential that can be utilized as well as possible.

In terms of facilities or technologies that support to increase the level of agricultural production in Africa, Africa is already equipped with natural support, namely the presence of about 13 large rivers that cross the border. This shows the great potential of developing water for agricultural use in Africa, but in practice, only 3% of the agricultural water used comes from rivers. Therefore, many investors are interested in developing river water sources for agricultural use. Countries that are under the spotlight are countries that have very high water resources such as Zambia, DRC, Liberia, Madagascar, Sudan, Mozambique, South Sudan, and Tanzania. The lack of agricultural inputs and market accessibility in Africa is one of the obstacles to the development of agriculture on the continent.

In fact, if Africa can increase its distribution network and increase its output, Africa has the potential to become a center of global agricultural production. Besides having the potential to become a center for global agricultural production, Africa can also achieve self-sufficiency by becoming an exporter of agricultural goods. This can be achieved if Africa can improve technology and mechanization following the agricultural environment in various regions, so Africa can achieve a green revolution. Foreign exchange income can be achieved by utilizing horticultural products in Africa including raw materials such as cotton, cashews, chocolate, and coffee. For the climate in Africa itself, it is exclusive to be in a better position with the production methods and distribution channels that have developed.

Before focusing on infrastructure development cooperation, cooperation between Indonesia and Africa in the economic field can be seen from the export and import data that has been carried out by Indonesia and Africa. From the data needs of imports owned by Indonesia from various parts of the world, it can be seen the opportunities that are owned by Africa to supply its products to Indonesia.

The following is data on imported products to Indonesia in 2018. Also explains the percentage of each product category from all imports to Indonesia.

Tabel IV.1: Import data of Indonesia

No	Product Groups	Highest dollar value (US$)	Percentage
1	Mineral fuels including oil	$ 31.6 billion	16.7 %
2	Machinery including computers	$ 27.2 billion	14.4 %
3	Electrical machinery, equipment	$ 21.4 billion	11.4 %
4	Iron, steel	$ 10.2 billion	5.4 %
5	Plastics, plastic articles	$ 9.2 billion	4.9 %
6	Vehicles	$ 8.1 billion	4.3 %
7	Organic chemicals	$ 6.9 billion	3.7 %
8	Articles of iron or steel	$ 3.9 billion	2.1 %
9	Cereals	$ 3.8 billion	2 %
10	Food industry waste, animal fodder	$ 3.1 billion	1.6 %

Source: World Exports, (2018)

Regarding Southeast Asian imports, the main destinations for African products especially on 2014 were Indonesia (US$4.6 billion). South Africa and Nigeria were the main origin markets, followed by Algeria and Angola. Nigeria's consolidation as Southeast Asia's main import market is directly related to oil exports. This is also related with the highest demand of Indonesia's import. Above 90 percent of Nigeria's exports to Indonesia are crude and refined petroleum, as well as petroleum gas. Asian countries such as Indonesia and Thailand became alternative destinations for Nigeria's oil exports, particularly since 2011-12 when exports to the United States fell, from US$ 21.7 billion in 2011 to US$ 2.5 billion in 2014. In this context, Southeast Asian markets are consolidating as emerging trade partners for Africa's biggest economy. This trend deepens in the coming years, including until 2018 (Rubiolo, 2016).

On the other hand, this is export data from Indonesia in 2018 to various parts of the world which can also be used by Africa to be an opportunity to supply the needs and get them from Indonesia.

Tabel IV.2: Export Data from Indonesia

No	Product Groups	Highest Dollar Value (US$)	Percentage
1	Mineral fuels including oil	$ 42 billion	23.3%
2	Animal/vegetable fats, oils, waxes	$ 20.3 billion	11.3%
3	Electrical machinery, equipment	$ 8.9 billion	4.9%
4	Vehicles	$ 7.6 billion	4.2%
5	Rubber, rubber articles	$ 6.4 billion	3.5%
6	Machinery including computers	$ 5.9 billion	3.3%
7	Iron, steel	$ 5.8 billion	3.2%
8	Gems, precious metals	$ 5.6 billion	3.1%
9	Ores, slag, ash	$ 5.3 billion	2.9%
10	Footwear	$ 5.1 billion	2.8%

Source: World Exports, (2018)

According to the Indonesian Embassy in Abuja, Indonesia`s non-oil and gas exports to 11 West African countries increased 20.7 percent or two times higher than the target set by the Indonesian government. Indonesia`s non-oil and gas exports amounted to more than US$ 779 million. Compared with the same period in the previous year, Indonesia`s non-oil and gas exports to West Africa have increased $ 134 million.

Tabel IV. 3: 11 Countries in West-Africa as the Destination of Indonesia's Exports

No	Countries
1	Benin
2	Burkina Faso
3	Gabon
4	Ghana
5	Cameroon
6	Congo
7	Liberia
8	Niger
9	Nigeria
10	Sao Tome and Principe
11	Togo

Source: Indonesia Embassy in Abuja, (2017)

In addition to countries in West Africa, Indonesia also sends its products to specific countries, such as shipping trains to Senegal. And the following is data on Indonesian non-oil products sent to Africa.

Table IV.4: Indonesia Commodity in Africa Market

No	Commodity	Destination Country in Africa
1	Leather and its derivative products	Egypt, Morocco, Algeria, South Africa
2	Health equipment	Kenya
3	Herbal products	-
4	Processed food	-
5	Essential oil	-
6	Fish and fish products	-
7	Handycrafts	South Africa
8	Jewelry	South Africa
9	Spices	-
10	Non paper stationery	UEA and Egypt

Source: Ministry of Trade (2016)

2. The Population of Working Age and GDP Growth in Africa

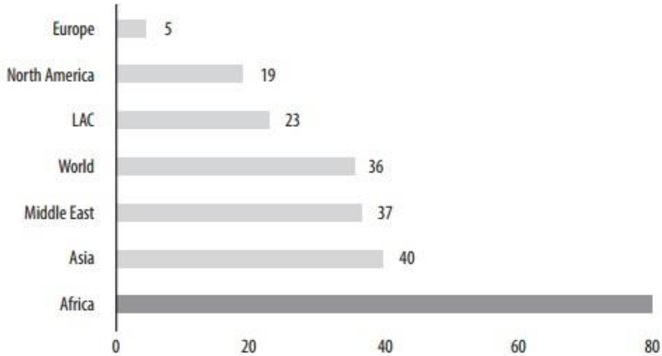
In 2000, The Economist named Africa as 'the continent without hope'. This is because, before 2000, Africa was known as the continent of crisis because of suffering in decades of war also in poverty. Not just a matter of war and poverty, Africa also has a problem of resources and weak governance. Over the past few years, economic growth in Africa has increased by more than 5%. That is what also made The Economist change its statement in the next 10 years from the 'hopeless continent' to 'hopeful continent'. This great opportunity was found because politics in Africa had begun to stabilize (a reduction in civil war) and also a combination of external conditions was considered very beneficial.

World Bank and other economic institutions state that savings and investment in Africa will increase and lead to full-scale economic development in line with the economic development in Africa as happened in East Asia and India. This also shows the change in attitudes in Africa which had been Afro-pessimism to Afro-optimism. The opportunities for investment and cooperation in Africa are through manufacturing and infrastructure. Besides, urban population growth and increased purchasing power in Africa is one of the great potentials that need to be exploited. Because its citizens become inclined to have greater needs (Youngho Park, 2018).

The important thing that strengthens the purchasing power of African consumers is due to the growing urban population factor. Abundant natural resources are no longer the main strategic value in Africa. Since early 2000, Africa has maintained its economic growth rate at an average of more than 5%, and Africa's national income (GDP per capita) has nearly tripled during 2013-2016.

As a consequence of the high birth rates and rural migration in Africa today, it is estimated that Africa will lead the global urban growth in the future. Even if compared to other regions in the world, the urban population in Africa is still small at around 40% of the total population, but rapid urbanization and population growth can be witnessed in Africa and are estimated to currently reach 1 billion. It is not impossible that in 2030, the urban population of Africa will reach 50% of the total population that will develop, and instead is expected to continue to grow to 60% in 2050. Of course, that number is not a small amount.

Graph IV.1: Prospected growth rate of urban populations by region (2012–2030)



Source: The Bright Continent 2014, p.15

By 2025, it is estimated that a population of more than 1 million people will exist in more than 80 cities in sub-Saharan Africa. In contrast to what has become a big city from the past, there will be more than 10 million people such as in Cairo (Egypt) and Lagos (Nigeria). Besides that, someday it is expected that there will be many big cities popping up. For example, the city that is expected to become the largest city in sub-Saharan Africa is Kinshasa (DRC). The data that explains that there are still many people in Africa who live below the poverty line and also live as the lower middle class, showing Africa has limited purchasing power. Middle class refers to those who spend between 2-20 dollars a day, as stated by the African Development Bank.

By 2025, it is estimated that two-thirds of sub-Saharan African households will have discretionary income. This shows an increase in consumer group growth after previously the middle-income class which was recognized as the final frontier consumer market only existed in certain large cities. This urban culture can explain the development of existing consumer power, especially to meet the needs of the younger generation, so the development of shopping places and department stores is built in Africa. This development also eventually spread to other cities because of the increasing demand for goods, especially in electronic goods such as refrigerators, washing machines, micro-ovens. Weak manufacturing bases in many African countries have caused many goods to be imported from other countries, especially with industrial products. Assessments of foreign currencies and inflation rates make consideration in limiting the opportunities for long-term and short-term industry development in Africa.

Urbanization, an increase in population, and an increase in income are the driving factors that cause the demand for processed foods like vegetables and meat to be higher. This is an important point because it is a great opportunity to create market opportunities that combine agriculture with business. Also, because the urban population doubled, the income also increased by more than 4% every year. This was said by the World Bank that the African food market is expected to grow 4 times larger in 2030 than its current size. It will also change the balance of trade in agriculture in Africa from deficit to surplus. By 2030, it is estimated that Africa's agricultural trade balance will reach a surplus of 20 billion dollars after initially having a deficit of 10 billion dollars. The manufacturing sector also has a very close relationship, which is about 30-50% of the manufacturing sector activities in Africa even though in reality the agricultural value chain created is still of little value. The average size of the agricultural industry in manufacturing in Africa is for example in Madagascar (59%), Ethiopia (60%), Senegal (58%) and Ghana (60%), exceeding the average size of the agricultural industry in manufacturing.

B. The Potential of Infrastructure Investment in Africa

Africa, in addition to promising abundant natural resources, also offers investment in the form of infrastructure on the road such as trains, power plants, and even at ports to be tempting as political stability achieved by countries in Africa after years of living in conflict. Infrastructure in the form of land transportation in Africa is considered still underdeveloped due to infrastructure development in several areas that are still limited because it only connects cities with ports.

Indonesia has enough experience in investment and is ready to share its experiences with Africa, including good and bitter experiences. The bitter experience includes how people come to invest in Indonesia, only taking (natural resources), never adding value. This has been experienced by Indonesia, not to happen in Africa. The Indonesian government requires four investment criteria to foreign investors, namely: the use of the most up-to-date technology, the existence of technology transfer, carried out on a business-to-business basis, and as much as possible using Indonesian workers (Pramudyani Y. D., 2019).

Indonesia held the "Indonesia-Africa Infrastructure Dialogue" (IAID) on 20-21 August 2019 at the Bali Nusa Dua Convention Center, Nusa Dua, Bali, Indonesia, to ensure collaboration in such sectors can be further strengthened and produce mutually beneficial results. The dialogue shall be attended by 700 participants from Indonesia and all African countries in the two-day event. The Dialogue will highlight the progress of cooperation and business deals signed at the IAF, April 2018 and feature the signing of business deals in infrastructure cooperation and other strategic industries between Indonesia and African countries.

Table IV.5: Data of companies that are expanding their business in the African Continent

List of Companies	Countries in Africa
PT Wijaya Karya (WIKA)	Niger, Algeria, Mozambique
PT PAL Indonesia	Gabon, Guinea-Bissau, Senegal
PT Pertamina	Nigeria
PT INKA	Gambia
Indonesian Eximbank and ICIEC	24 countries in Africa

Source: Ministry of Foreign Affairs (2019)

Infrastructure was one of the most highlighted issues in the forum, as both Indonesia and Africa regard this sector as a high priority for future development. According to the Global Infrastructure Outlook from Global Infrastructure Hub, the investment needs for various infrastructure projects in Africa from 2016 to 2040 amounts to USD 6 trillion, equating to 5.9% of GDP dedicated to infrastructure within this period. Meanwhile, Indonesia forecasted the need of USD 1.7 trillion in the same period.

In addition to producing a business agreement, through IAID Indonesia has signed a Joint Statement with Djibouti regarding plans to form a Preferential Trade Agreement (PTA). Meanwhile, the PTA with Mozambique will be signed soon. Besides, Indonesia has conducted the first round of negotiations on the formation of a PTA between Indonesia and Mauritius. The Ministry of Foreign Affairs as the spearhead of diplomacy, especially economic diplomacy, in collaboration with the Ministry of Trade continues to encourage PTA with non-traditional markets to increase exports of Indonesian products.

Table IV.6: Indonesia-Africa Companies Partnership

No	Company in Indonesia	Company in Africa
1	Indonesia Eximbank	The African Export-Import Bank
2	Indonesia Eximbank	Standard Chartered Bank
3	PT Wijaya Karya	Chief of Cabinet of Niger
4	PT Timah	Topwide Ventures
5	Garuda Maintenance Facility (GMF) Aeroasia Max Air	Ethiopian Airlines
6	PT Perusahaan PerniagaanInternasional	Madarach Madagascar

Source: Ministry of Foreign Affairs (2019)

Town planning practice, the structure of new cities and townships, are part of the process of postcolonial change (Simon, 1992). The expansion of cities is considered important at this time so that Africa has increased demand for infrastructure in cities. For example, currently, modern public transportation such as trams and buses are being developed to overcome traffic congestion in Ethiopia and Nigeria. The pan-African project was carried out to connect urban centers in Africa as a form of further participation in large-scale infrastructure expansion. Development of development corridors to connect potential areas as the focus of trade and key markets is also being carried out; this is also in line to connect cities in the development of trans-Saharan infrastructure.

Ethiopia's economic growth is the highest in the region with the second-largest population in Africa, which is 108 million. Also, Ethiopia Airlines direct flights connecting Addis Ababa-Jakarta. Besides, Ethiopia is an air connectivity hub in Sub Saharan Africa. Also located is the headquarters of the African Union and many offices of international organizations such as the United Nations (UN) in Addis Ababa and many Indonesian companies investing in Ethiopia.

The investment activities of Indonesian companies abroad prove that Indonesia can become an important economic player in Africa, providing a large multiplier effect economically to Indonesia in terms of human resource development, increasing state revenue, expanding Indonesian market share, and strengthening the Indonesian corporate brand. PT Wijaya Karya (Persero) Tbk or WIKA is one of the BUMN Karya that will invest in infrastructure in several African countries. WIKA's Managing Director Tumiyana said it was collaborating with the Indonesian Export Financing Agency (LPEI) or Indonesia Eximbank to finance many infrastructure projects in Africa.

Table IV.7: Infrastructure Projects in Africa by LPEI

No	Project	Amount
1	Bulk liquid terminal (Zanzibar-Tanzania)	USD 40.000.000
2	Mixed used complex-goree tower (Senegal)	USD 250.000.000
3	Social Housing (Ivory Coast)	USD 66.000,000
	Total	USD 356.000.000

Source: CNN Indonesia

The value of the business agreement can still be increased for the terminal port construction project in Zanzibar and the apartment development project in Ivory Coast because the total project value for each project is US $ 190 million and US$ 200 million. So that the overall value of the project will be US$ 640 million. LPEI itself has the capacity to be able to support WIKA in working on these projects.

One of the goals Africa wants to achieve is regional integration. However, aside from improving transportation infrastructure in Africa, the focus of other infrastructure development in urban areas is on water and wastewater facilities, healthy sanitation, well-regulated housing, and industrial complexes to form the production base of a city. Given this is not a short-term plan and must be planned and done very well.

BUMN and private companies in Indonesia already have sufficient strength and experience. They are experienced in building infrastructure with severe geographical and climate challenges. They are also able to build modern urban infrastructure. Besides, Indonesian infrastructure companies have also proven capable of building infrastructure in locations with a variety of customs and cultures and their local traditions. This will be in line with efforts to achieve national interest in the third point, namely regarding culture.

Indonesia, as stated by President Joko Widodo, will be very open to cooperating, sharing and helping infrastructure development in Africa. According to him, the development of this infrastructure is to achieve many goals. Since the infrastructure can unite the nation and strengthen the diversity of Indonesia. This is following the ambitions of many countries in Africa in spurring infrastructure development.

G20-initiated Global Infrastructure Hub write a report about 2017 Global Infrastructure Outlook that the investment needs for various infrastructure in projects in Indonesia from 2016 to 2040 amount to $1.7 trillion while Africa needs $6 trillion during the same period (Desk Editor Insider, 2019).

The major contributors to Africa’s foreign direct investment (FDI) are still the United States, the United Kingdom, and France. In recent years, several countries have been making strides in their investment in Africa including China, India, and Italy. According to the United Nations Conference on Trade and Development (UNCTAD), in 2015, China invested $35 billion in Africa, almost triple the amount the country invested in 2010.

In 2017, African companies have also invested around $1.7 billion. By 2019, Indonesia has more than 30 Indonesian companies invested in Africa. The examples of the companies are: textile producer Indorama and pharmaceutical company Kalbe Farma. Beside of that, the best example of flourishing trade relations with Africa shown through the popularity of Indomie instant noodles in countries such as Nigeria (the most populous country on the continent). Besides of that, the manufacturer, Indofood Sukses Makmur, has six plants in Africa, including in Egypt, Sudan and Kenya.Indonesia has a number of exports to the continent, including palm oil, processed food and beverages, garments and soaps.From Africa, Indonesia mainly imports crude oil, cotton, cocoa beans, pulp and chemicals for fertilizers and industries (Sheany, 2018).